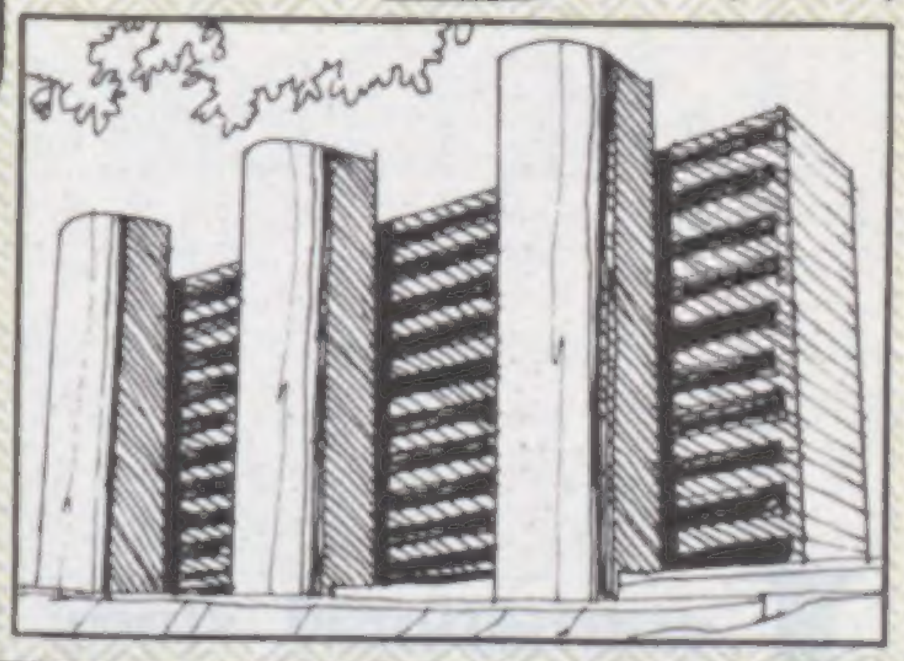
JANUARY 1982

automotive executive

PUBLISHED FOR AMERICA'S AUTOMOBILE AND TRUCK DEALERS

AN INTERVIEW WITH CHRYSLER'S LEE IACOCCA

COMMENTARY NADA



NADA and You

You have a crucial business decision to make this year: renewal of your NADA membership. Some of you may question whether you can really afford to belong to NADA any longer. After all, the economy and the industry have been slow for the past two years and business has suffered. But the best time to belong to NADA may be when business is slow, because that's when many of the services NADA provides do the most good.

Your membership in NADA is critical—critical to the future of your business and to the future of the automotive industry. Why? First and foremost, membership in NADA means strength. Imagine a world where each dealer had to wage his own personal battle with Washington to get action on issues of concern. It would be an extremely difficult and frustrating task.

Through NADA, dealers work together on common issues. The Association serves as the voice for thousands of dealers. The strength of numbers gives NADA the clout to testify before powerful congressional committees and federal regulatory agencies.

The Association's legislative staff makes sure dealer interests are brought to the attention of Congress. NADA's Legal Group watches over regulatory actions and provides legal expertise on all aspects of NADA programs. Dealer concerns with the manufacturers, such as price protection, year-end allowance guarantees and franchise improvements, are communicated to industry leaders by NADA's industry relations staff.

This clout translates into successful action. For example, NADA won a major decision for dealers last summer when a federal appeals court overturned a Federal Trade Commission order which would have cost dealers thousands of dollars on repossessed cars.

In another victory, NADA won changes in Environmental Protection Agency rules in order to exempt dealers as co-warrantors of the design or performance of emission control systems. The Association also helped preserve overtime pay exemptions for dealers, and was instrumental in obtaining loan guarantees for Chrysler.

More recently, NADA joined forces with homebuilders and realtors to persuade the Federal Reserve Board to act to lower interest rates. Since the campaign's inception in September, the prime rate has dropped 4.5 percentage points, with dealer's average monthly floorplan cost dropping from $13,000 to $10,000.

NADA membership can also benefit the dealer in a lot of other dollars and cents ways. Association publications such as **automotive executive**, the **NADA Newsletter** and special bulletins keep you informed of industry events and trends through the year.

Through the association, you and your employees can participate in retirement and insurance programs. You can increase your business acumen and shop for new products at the Association's annual car and truck conventions. If your service department needs a boost, NADA's Service Systems will help you improve profits and customer satisfaction. Customer relations are further strengthened by NADA's Automotive Consumer Action Program, which provides for review and mediation of automotive complaints against participating dealers.

NADA offers numerous workshops, seminars and conferences throughout the year for dealers and their employees to keep them abreast of the latest business and management developments. The Association's Dealer Candidate Academy assures dealers they will have qualified successors. NADA also arranges forums for dealers across the country to get together to exchange information, experiences and ideas.

In addition, NADA provides the means for dealers to make charitable contributions to their communities, elect responsible government officials and promote Americans' freedom of mobility.

All of these activities exist for and because of you, the dealer. Without your ideas and your financial support, these programs cannot continue. Membership in NADA is a vital step in assuring your voice will continue to be heard. Æ

Executive Notes

International study team forms. Members of the American and Japanese business and academic communities have formed a study group to examine the future of the automotive industries in the two countries.

The two-year study will be coordinated by the University of Michigan's Center for Japanese Studies and Technova, Inc., a Tokyo-based research firm. Based on the study team's findings, a 20-member policy committee will develop policy options and recommendations. The policy committee will be chaired by Robert Ingersoll, former U.S. ambassador to Japan, and Minoru Toyoda, chairman of Toyoda, Inc.

"We expect to focus on techonological change in the two industries, because is it so essential to their survival," says Robert Cole, director of the University of Michigan's Center for Japanese Studies. "Automotive prosperity in Japan and the United States cannot be achieved without a long-term understanding of the industry's evolution in both countries within the context of their overall political and economic relations.

***

Electric vehicle test track opens. The TVA Electric Vehicle Test Tract, the first testing ground in the nation devoted exclusively to the evaluation of electric vehicles, was dedicated recently in Chattanooga, TN.

The one-mile-long, dual-banked test track will be used to evaluate the safety, reliability and performance of electric vehicles and their components. Some of the testing will evaluate the potential of the electric vehicle for second car and mass transit applications. The 9,600-square-foot, passive solar facility was made possible through support from the Electric Power Research Institute and the Department of Energy.

***

Subaru forms financing arm. Subaru of America has started offering retail and wholesale financing services to Subaru buyers and dealers through its newly formed subsidiary, Subaru Financial Services.

Recent agreements with Borg-Warner Acceptance Corp. and Ryan Insurance Group make Subaru of America the nation's first automobile importer to offer a complete package of retail finance and insurance programs.

"As a result of these agreements, we'll now be able to offer retail installment financing, dealer floorplanning, extended service contracts, various insurance plans and other services," says Harvey Lamm, Subaru of America's president and chief executive officer.

Subaru plans to have the entire program under way by mid-1982.

***

AMC to build 4-cylinder engines. American Motors Corp. has announced it will begin its own 4-cylinder engines within the next two years. The engine will be the first 4-cylinder powerplant produced by AMC.

The new 2.5-liter engine will be built at the company's manufacturing facilities at Kenosha, WI, where 6- and 8-cylinder engines are currently being produced. The plant has the capacity to build 150,000 of the new engines.

"The shift in the market toward increased fuel efficiency, which we consider permanent, makes it desirable for American Motors to have its own 4-cylinder engines," says W. Paul Tippett, AMC president. AMC currently offers a 4-cylinder engine built by GMC's Pontiac Division.

***

Automotive Hall of Fame to expand. The American Truck Foundation has awarded a $400,000 grant to the Automotive Hall of Fame in Midland, MI, to help honor pioneers and leaders of the truck and trucking segments of the automotive industry.

The Automotive Hall of Fame already has 6,500 square feet of exhibit space, and an additional 9,000 square feet are planned. The expansion will make room for a new exhibit area, a larger library and special storage space for rare collections and books.

***

BL Cars and Honda announce collaboration. BL Cars and Honda Motor Co. have signed a letter of intent to jointly design, develop and manufacture a new line of "executive class" cars for sale in Japan, Europe and North America. Each of the companies will have its own version of the car. BL's car will be based on its LC10 family; Honda's is likely to become the top of its line. The cars are targeted to be introduced by BL and Honda in the U.S. in 1985.

ÆE

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automotive executive (ISSN 0195-1564) is published monthly by the NADA Services Corp., a wholly owned subsidiary of NADA. Subscription rates delivered prepaid in U.S. and U.S. possessions $15.00 per year, $18.00 elsewhere. Single copies delivered prepaid $2.00. Multiple subscriptions available at discount rates. Second class postage paid at McLean, VA and additional mailing offices.

All editorial communications should be addressed to the Editorial Director, automotive executive, 8400 Westpark Dr., McLean, VA 22102. Postmaster: Send address changes to automotive executive, 8400 Westpark Dr., McLean, VA 22102.

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Highway User Tax Legislation

There are indications that 1982 may be the year action is taken in the area of highway user tax legislation. This means there is new hope for the repeal of the Federal Excise Tax on trucks and truck parts.

In the past, efforts to repeal the Federal Excise Tax (FET) on trucks have been resisted on the basis of two arguments. First, it was proposed that any action on FET, as well as on other truck taxation issues, should wait until the highway cost allocation studies mandated by Congress have been completed. The second argument was that any FET repeal should not be acted on separately, but only as part of a comprehensive legislative package relating to highway user charge taxation. The prevalence of these views has worked to prevent the passage of any specific FET legislation.

"There is new hope for the repeal of the Federal Excise Tax on trucks and truck parts."

But now, the working papers for the Department of Transportation (DOT) reports to Congress are completed, and the formal report should be presented this month. The presentation of this report should remove any further impediments standing in the way of highway tax reform.

There is a consensus among many Washington politicians that action is needed now on highway taxation. The Highway Trust Fund is being depleted, and the Interstate Highway System is wearing out after 25 years. Also, the new Republican leadership is placing special emphasis on implementing appropriate user charges for many economic sectors, including transportation.

A major public relations push in support of new highway tax legislation can be expected this year. The railroad industry and groups such as the American Automobile Association will be in the forefront of such efforts.

The result of these developments may be the passage of a comprehensive highway tax bill during the upcoming session of Congress. The nature of such a package, and how it treats excise taxes, will be of great importance to dealers.

Any comprehensive bill will draw heavily on the findings of the recently released DOT report, "Capital Cost Allocations and User Charge Structure Options." The report proposes several scenarios for the collection of future highway taxes, including specific recommendations regarding the FET on trucks and truck parts. Of the four major recommendations, only one would eliminate the excise tax. Two of the four alternatives actually would *increase* the tax to 15 percent.

"A public relations push in support of new highway tax legislation can be expected."

If the FET is eliminated, the revenue would be offset by the collection of weight-distance taxes or an increase in the tax on diesel fuel to 10 cents per gallon. Because a federal weight-distance tax is not feasible for the near future, the only way to eliminate the excise tax for the time being would be to increase fuel taxes.

ATD will continue to monitor and participate in the formation of any new highway tax package. Dealers should also get involved by contacting their Congressmen and expressing their opinions on FET. Once excise taxes are included as part of comprehensive legislation, they will be here to stay. Æ

This column is prepared exclusively for **automotive executive** *by David Paxon, director of NADA's American Truck Dealers Division. All comments or questions pertaining to this column should be mailed to:* **Truck Focus, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

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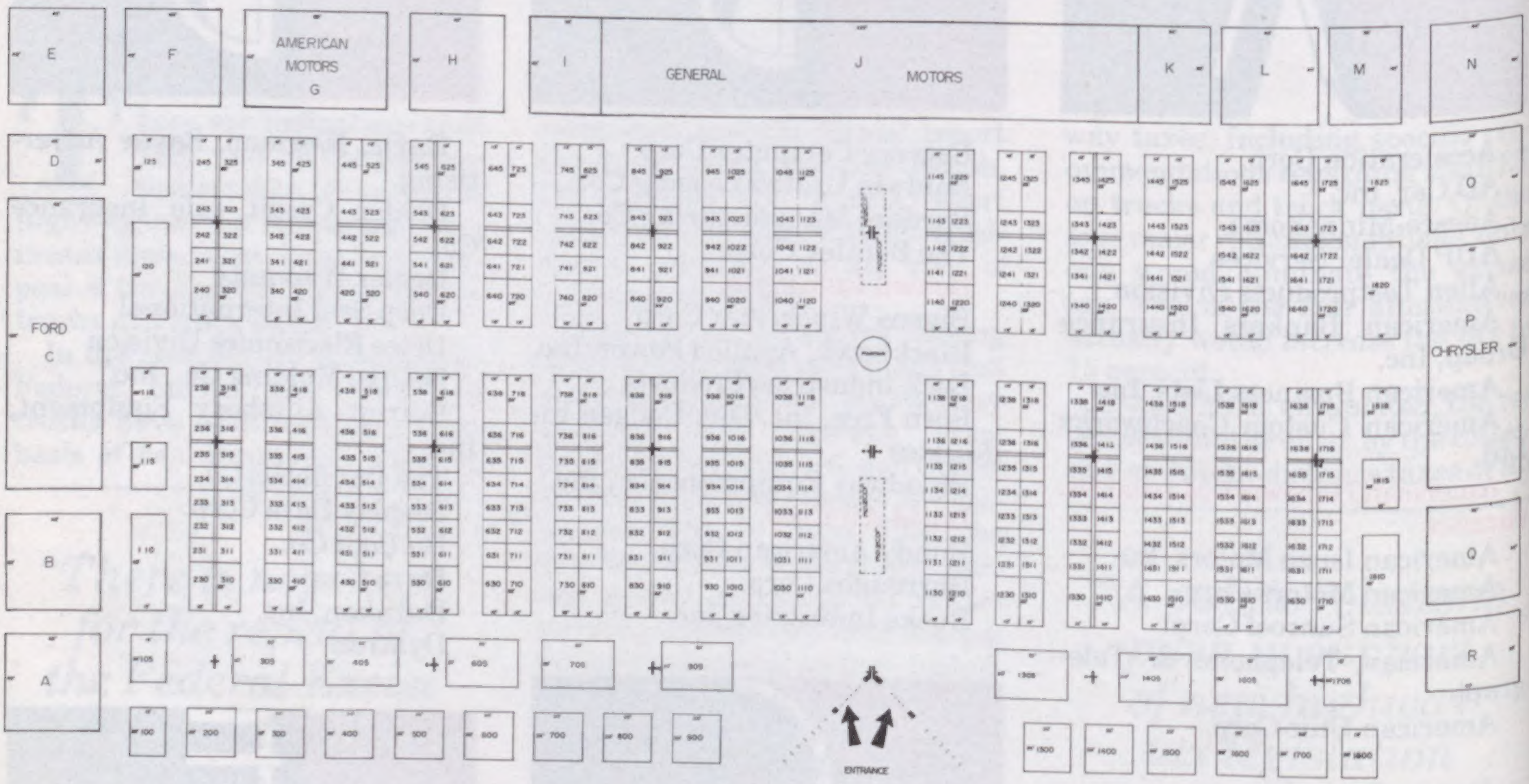

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ON THE HILL

On December 7, Congressman Gary Lee (R-NY) issued a cogent statement on the subject of the Federal Trade Commission's Used Car Rule. In the statement, Lee discussed the pros and cons of the rule and the reasoning behind his decision to sponsor House Concurrent Resolution 178, which would veto the rule.

Lee objects not to the rule as a *whole*, but rather to the provision that would require disclosure of "known" defects. Along with NADA, Lee believes that compliance with this provision will necessitate costly inspections.

Because of the relevance of this testimony (the rule is due to reach the floor of both houses as Æ goes to press), we thought it would be valuable to share. Here are the highlights of Lee's statement, much as it appeared in the *Congressional Record.*

"On September 11, 1980, I introduced H. Con. Res. 178, which would disapprove the FTC's rule relating to the sale of used motor vehicles. Since that time, there has been very little discussion of the *merits* of this issue outside of Congress, but there has been a good deal of discussion by various segments of the media regarding past campaign support by the nation's automobile dealers to members of Congress who have voiced support for my resolution. For this reason, I feel it is appropriate for me to address the substance of this issue in more detail and to explain why I am supporting the disapproval of this rule.

"The rule contains three major provisions:

"(1) The rule prohibits any dealer from misrepresenting the mechanical condition of a used motor vehicle.

"(2) The rule requires the dealer to make available to the consumer clear and concise information regarding any warranty on the vehicle and to conspicuously disclose to the consumer that the car is being sold without coverage when such is the case.

"(3) The rule requires a dealer to inform the consumer of specific defects in the car if he has reason to conclude that there is a condition in the vehicle which could be caused by one of 52 listed defects.

"The first two provisions of this rule are *not* objectionable and . . . should be included in any used car rule issued by the Commission. As a matter of fact, these two provisions would resolve the two major problems that have been identified by the FTC through its hearings on this matter. This was confirmed by FTC Commissioner Patricia Bailey when she testified before the House Subcommittee on Commerce, Tourism and Transportation on December 2, 1981. In that hearing, she stated: 'The record shows that the two major problems most frequently complained about and which are apparently the most widespread in the industry are a dealer's oral misrepresentations about a car's mechanical condition at the time of sale and lack of information about warranty coverage . . .

"The first two provisions in the regulation specifically address these problem areas. Despite this, the Commission included a third provision in its regulation which gives me a great deal of concern. This is the defect-notification provision. I am opposed to this provision for a number of reasons, any one of which I feel is grounds for Congressional disapproval:

- "The defect-notification provision is so ambiguous that experienced attorneys cannot agree exactly what obligations the dealer is required to comply with.
- "Consequently, I am convinced that dealers would be forced to inspect their used cars to identify specific defects in order to protect themselves from penalties of up to $10,000 per vehicle. Dealers testifying before House and Senate committees estimated that such inspections would cost about $150 per vehicle.
- "The rule regulates only one-half of the used-car market and leaves the other half totally unregulated. The FTC has created an artificial competitive disadvantage to the dealer at the worst possible time.

"The Commission's action demonstrates a total insensitivity to the economy in today's world and to the plight of the retail automobile dealer . . . Should this rule include only the prohibition on misstatement of fact by dealers regarding the mechanical condition of the vehicle and a full warranty disclosure provision, I would give it my full support. This, of course, should have been the Commission's rule in the first place." Æ

This column is prepared exclusively for **automotive executive** *by the Legislative Division of the National Automobile Dealers Association. All comments or questions pertaining to this column should be mailed to:* **On The Hill, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

George Lyles: NADA's President Elect

by Ron Rogers

High Point, North Carolina can fool you.

At first glance, it comes across as just a quiet and unassuming town nestled rather comfortably between the two bigger cities surrounding it, Greensboro and Winston-Salem. It's not noisy, it's not overly flashy, and it doesn't bend over backwards to attract the attention of the casual observer.

If you really look at this city of 65,000 closely, though, and watch it in action, your perception of it will probably begin to change. Behind the rather unobtrusive brick walls, beyond the somewhat reserved atmosphere, beats the heart of the largest furniture and hosiery manufacturing city in the world. Big dreams are launched there, big deals are made there, and big money, to understate the situation, changes hands there.

It's a town that fits the temperment and drive of a man like George Lyles perfectly, and it's a town with a personality that's really somewhat analogous to his own. The next NADA president could very accurately be described as relaxed, reserved, and a gentleman, but he gets things done, and he knows how to motivate other people to do the same.

Lyles has been a Chevrolet dealer in the High Point area for more than three decades. During that time, in the course of guiding his business and working in various dealer groups, he's bargained with a number of the heavyweights in DC and Detroit.

Robert Lund, the general manager of Chevrolet, and F. James McDonald, the recently elected president of General Motors, are two men who know him very well.

Lund's relationship with NADA's president-elect stretches back into the very early 1960s, and there have been, over the years, some light and informal moments sprinkled amongst all the business discussions between the two men. Lund gives the NADA executive high marks for his business acumen, and McDonald heartily agrees. McDonald and Lyles worked together frequently in '72-'73 when the GM executive was general manager of Chevrolet and the Chevy and Rolls Royce dealer was chairman of the Chevrolet National Dealer Council.

Both Lund and McDonald, when asked, talk without reservation about Lyles' character: about his genuineness, his selflessness, and his work in his community. When discussing him as a businessman and as a representative of the dealers' view, they mention his "practical approach to problems and solutions," his "consistently sound advice," and his "effective expression of the dealer position."

George Lyles' entire history has been one of grabbing the initiative, forming partnerships, forging a plan, and taking action —quietly, but effectively. A close friend of his says, "He gets an un-

believable amount of support from people—more than anybody I've ever seen."

In analyzing Lyles' comments in a recent interview with Æ, it seems safe to say that the biggest reason for his ability to rally people—and the biggest reason for his business success—is his enthusiasm for what he does. When he uses the word "exciting" to describe one of his business pursuits or the latest issue he's become embroiled in as part of NADA's executive committee, he's convincing. He seems almost awed by the fact that he, on several occasions, has been in the arena where and when issues of national significance have been discussed. But it hasn't seemed to sway him from his feeling that he has an obligation to try to do something about the situation in which the industry finds itself.

Throughout his business career, he's turned his dreams into realities by taking the bold initiative that only gamblers and dreamers seem to have, but he feels he's willing, nevertheless, to stare Reality in the face and see it for what it is when he has to.

His frustration was evident when he talked with us in late October about the dual downturn in the industry and the economy. "There is no immediate real solution," he said then, "that we can even recommend. The overall problem, without any question, is a serious one, with the government borrowing so much money in order to pay the interest on the debt.

"We've been to (Federal Reserve Chairman) Volcker, (Treasury Secretary) Don Regan, and Senate Banking Committee Chairman Jake Garn, and we've had no recommendation for them other than to at least stay within the upper limits of their target as far as the money supplies are concerned. (The supply of money regulates the interest rates.)

"We at NADA—and the same goes for anyone else, as far as I know—have no quick fix. But our Board has committed NADA to pursuing a limit on the budget deficit.

"We *want* to support the president's economic policy. Their goal *was* $42.5 billion, and we haven't asked for this to be changed in

"The public is now waiting for one rebate after the other."

order to lower the interest rates. But now, the administration has been talking $65 or $85 billion, partly because Congress wants money to spend on social programs.

"Since talking with (Secretary) Regan, I've noticed he's indicated that interest rates must come down. He's said he thinks they have to, in order for industry to survive. Consequently, he's promoting things we'd like to see. But he has cautioned that inflation must be kept down at the same time.

"Regan asked us what we could *live* with, with respect to rates. At the time, they were 20 percent, and we said, '15.' He indicated we'd see it at 16 or 17 by the end of the year, and I believe he was sincere. He said he thought the track they were on was going to help *relieve* our problem, but he didn't pretend our troubles were going to be solved.

"This is a hell of a time, any way you look at it. Our industry has been depressed for two years, and now we're going into a recession. How does a group survive when they've got something like this to look forward to?"

Lyles notes, of course, that some dealers are being affected minimally by all this, especially those who are handling imports as a single or dual line.

"Let's face it," he says. "When the Japanese started their surge here, they had many more new plants than we did. They've had the robots, they have had considerably less expensive labor, and they came out with a quality car and promoted it as such, and the public bought it.

"More than that, the public found out that it *was* a quality car, and heard even the president of General Motors say the American-built car was not up to that standard.

"Now, with the new American cars, I think we're much closer to it. In fact, I'd pit one of the cars I know well, the J-car, against the Japanese cars any day. I think the quality of our car is considerably *better. But:* to change perceptions, it's going to take awhile. We've not only got to get the public to believe in what we produce, we've got to get the media on our side. The American quality and fuel economy and price have to *surpass* the imports. That's the only thing that's going to turn people's heads, and even then it will happen slowly.

"I think the J and some of the other new U.S. cars are an indication of the direction we're going in. The J is more robot-built than anything GM has made, and we, at our shop, haven't seen any wide discrepancies in quality like we have in the past as far as production-line cars are concerned. The car is excellent. Our service department makes remarks about it."

There are dealers in this country who always knew they would be dealers. Early on, their dealer fathers would talk about their sons taking over one day, and from there, it was a gradual process: learn a little in this department, help a little in that one, all leading up to the next-to-last step—managerial responsibility in some facet of the dealership's operation.

Lyles' father *was* in the automobile business, probably early enough to be considered a "pioneer." But the rest of the story deviates from the typical script to some degree.

The senior Mr. Lyles began his auto career not as a dealer, but as an employee for Ford in Charlotte in the nineteen hundred and teens. Then, in the very early '20s, he took on Ford dealerships in the

North Carolina towns of Thomasville and Kernersville, and he added Oldsmobile and Chevrolet stores in High Point in 1925.

Eventually, the Ford stores were disposed of, as was the Olds, leaving the Chevy point to fall to today's NADA president-elect. George Lyles, Sr. wanted his son to take over the High Point business at the close of the war. George Lyles, Jr. however, had to think about it.

He graduated from Duke University in 1941 with a Bachelor's degree in business administration. He was pointing towards a career in business, but he wasn't really sure *what* business. Then, during World War II, he found himself with the naval air corps, where he was given the training he still makes use of today in flying his twin-engine Beechcraft.

His principal role in the corps, though, was as an engineer, involved in experimental aircraft as well as aircraft modification. Part of his job had him delivering PBN patrol bombers to the Russian allies at the transfer point in Elizabeth City, NC, and his last project was the construction of the drone radio-controlled aircraft that were used in the atom bomb test on Bikini Island.

He found the work fascinating, and when the fighting was over, lieutenant commander Lyles found himself seriously debating staying in the navy and in Philadelphia.

"The automobile business wasn't really in my blood in those days," he says. "I had to give the idea of taking it on a lot of consideration. And let's face it: If business conditions for Chevrolet then were like they are today, I probably would have made a different decision.

"Real estate has been one of the best investments of the last 20 years. But, you have to remember: you can't overextend."

"But I have no regrets. The decision was a good one—I enjoy what I'm doing. I went to the Chevrolet Dealer Sons School in December of '46, and I've been engrossed in the bottom line and in everything that leads to it ever since."

Because Lyles' activity makes it very evident the auto industry is first in his business life, he is not at all reluctant to admit that one of the things he likes about it is the fact that it has given him the opportunity to do different things.

One of those "different things" once involved the boat business. When he and his partners sold the Hatteras Yacht Co. to Rockwell International in the early '70s, Hatteras was the largest manufacturer of fiberglass yachts in the world. (It still is.)

"In 1959," Lyles says, "a group of us were on a fishing trip down in Florida, and we happened upon a boat repair yard and a fellow making a fiberglass 23-footer. One of our party became really interested, pursued it, and encouraged the rest of us to get financially involved.

"Well, we did. We rented a garage locally, and we employed the fellow building the boat to be our engineer. We made all the different investigations and surveys to see what the logical model was, and we ended up with the 41-foot fiberglass mold. It was the first production fiberglass boat of any appreciable size."

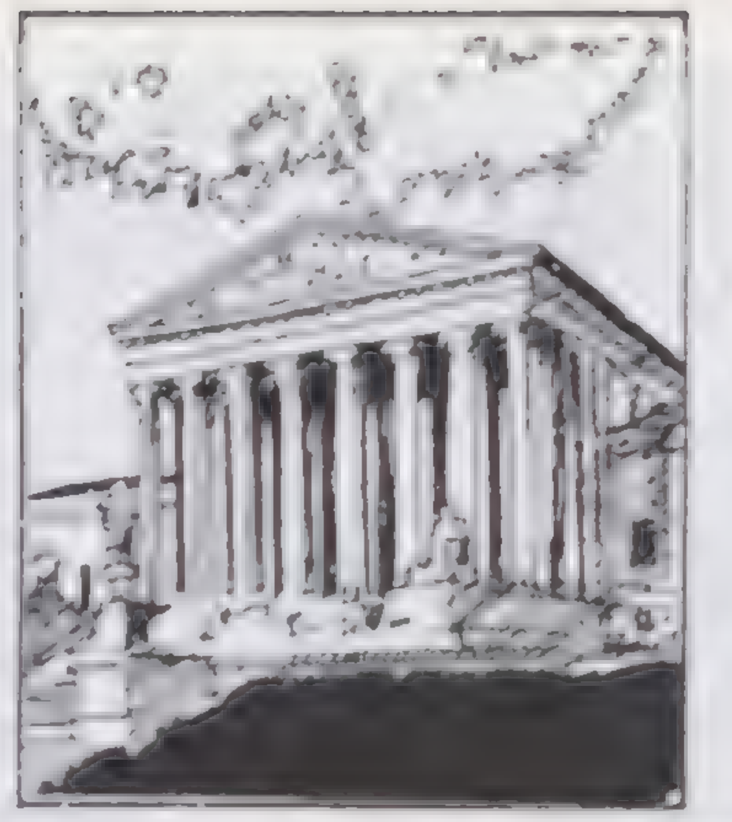
Typically, when Lyles describes his involvement in different business ventures, he makes the initiative he took sound nearly accidental, and his investigation and analysis, almost happenstance.

"Friends of mine started, and I participated in, promoting the Country Club of North Carolina," he says, explaining how he came to be enticed by the land development business. "After I was into it about a year, I got some people *here* involved. We bought the land and hired the same builder, architect, sprinkler people and grass people, and they came up here to Willow Creek Golf Club. We developed the land around it, and we're still involved. We develop lots and sometimes build and sell homes." (The project has proven to be extremely attractive to buyers, and the plans that have been responsible for the basic strategy of the development have proven to be well-thought-out, ingenious, and very sound business.)

Lyles admits that real estate *is* very intriguing to him. "It's been,

(continued on page 45)

Colors

LEGAL  BRIEFS

GM terminates dealership for substantial breach of franchise agreement

A New Jersey Appellate Court ruled that a franchisee's sale of its dealership without prior notice to the franchisor constituted good cause for terminating the dealership. (*Simmons v. General Motors*, No. A-1107-79, N.J. Super. Ct., 8/11/81).

Simmons entered into a dealer sales and service agreement with GM in June, 1973. After experiencing financial difficulty, Simmons sold the stock in Simmons Olds to William Perretti in February, 1979. In addition, the actual business premises were sold to A.M.S., Inc., a corporation owned by Perretti. GM was not notified of this transaction until April, 1979, at which time GM notified Simmons that the dealer sales and service agreement would be terminated on May 2. Simmons then filed suit against GM, contending that GM had constituted a breach of contract and violated the New Jersey Franchise Practices Act which states: "It shall be a violation of this act for any franchisor to terminate, cancel, or fail to renew a franchise without having first given written notice setting forth all the reasons for such termination."

The trial judge found that the transfer of the franchise by Simmons to Perretti without GM's approval was simply a "technical breach" of the franchise agreement. The Appellate Court, however, reversed that ruling, holding that this transfer was not merely a technical breach of the agreement, but rather a violation of the Franchise Practices Act and a "substantial breach" of Simmons' obligations under its franchise agreement. The Franchise Practices Act prohibits transfers of a franchise without prior written notice to the franchisor.

Although termination of a franchise, under New Jersey law, normally requires 60 days notice, GM's termination 15 days after giving Simmons notice was valid because it became effective more than 60 days after the unlawful transaction was concealed from GM. The Court allowed GM to discontinue relations with Simmons 30 days after the decision was rendered.

EPA determines fuel savings devices are of limited value

The Clean Air Act requires the Environmental Protection Agency to evaluate retrofit devices to determine whether or not the representations made about the devices are accurate. EPA has recently concluded an evaluation of two devices: the "Glynn-50" and the "Idalert." EPA has determined that there is no reason to support any claims regarding improvement in fuel economy or exhaust emissions with the use of either of these devices.

After testing the "Glynn-50," manufactured by the Hopkins-Glynn Corp., EPA saw no evidence that the device was an improvement over an unmodified induction system.

The "Idalert" device, designed to give visual warnings to the vehicle

This column is prepared by the Legal Group of the National Automobile Dealers Association. Because this column is national in scope, the discussion of cases and legal problems is necessarily limited and general. When specific legal questions arise, you should consult a competent attorney in your state. For further information or questions concerning the items appearing in this column, write: **Legal Briefs, NADA Legal Group, 8400 Westpark Dr., McLean, VA 22102.**

operator that the engine has been idling for an excessive amount of time, is manufactured by Con-Serv, Inc. There *is*, it is true, a potential fuel savings to be gained by reducing unnecessary idling time of heavy-duty engines, but for the device to be effective, certain conditions must exist. EPA concludes that a potential customer must evaluate his own situation to determine whether the use of the "Idalert" device would demonstrate any significant fuel savings.

Manufacturer may be held liable for dealer's failure to deliver automobile

The U.S. District Court for the Eastern District of New York has granted summary judgment, *in part*, to BMW of North America, a decision that may hold BMW vicariously liable for a dealer's failure to deliver an automobile to a consumer. (*Thomas W. Cullen, Jr., v. BMW of North America*, No. 79C970, E. Dist. NY, 5/16/80)

On January 24, 1979, Thomas W. Cullen entered into a sales contract with Bavarian Auto Sales, Inc. (then a franchised BMW dealer) for the purchase of an $18,000 BMW automobile. The plaintiff remitted payment in full, with the understanding that the vehicle had arrived and was being serviced. After Bavarian Sales failed to deliver the automobile to the purchaser, the plaintiff filed suit against Bavarian in the New York State Supreme Court. This action, however, was stayed when the president of Bavarian filed for bankruptcy in Connecticut. A diversity action against BMW, a New Jersey corporation, then followed.

The complaint that was filed against BMW listed four causes of action: 1) Liability of BMW for Bavarian's conduct; 2) BMW's negligence, the allegation being that, though the defendant had knowledge of the dealer's financial instability months before the plaintiff placed his order, BMW failed to terminate the franchise; 3) an alleged conspiracy between Bavarian and BMW to defraud customers; and 4) constitution of a prima facie tort.

The action went before the court of the defendant's motion for summary judgment. The defendant's motion was granted in part, and denied in part. Pursuant to Rule 56, F.R. Civ.P., a summary judgment can only be rendered if it can be shown that there is no issue as to any material fact. In this case, the court ruled that a summary judgment dismissing the plaintiff's third and fourth causes of action regarding conspiracy and prima facie tort is, in fact, appropriate. There was no evidence, the court said, to support these claims. However, the court denied summary judgment as to the first and second causes, concluding that they are issues of fact and substantiate a genuine need for a trial.

Colorado Motor Vehicle Board warns against illegal business practices

The Motor Vehicle Dealer Board for the State of Colorado issued a statement on October 1 cautioning all motor vehicle dealers and wholesalers against certain practices:

1) The Board had received a number of complaints from consumers unable to obtain title to their newly purchased vehicles, and it has found that almost 90 percent of these complaints were the result of dealers and wholesalers not paying for vehicles they had purchased from other dealers. A Colorado Court of Appeals case involving a transaction between two dealers (41 Colo. App. 572; 589 P2d 73) ruled that if a buyer has the opportunity to inspect a vehicle before he buys it, and later finds

defects, he cannot return the vehicle or refuse payment.

2) The Colorado Board says it has also had problems with some salesmen who have been making certain commitments without actually having the authority to bind a dealer to a written agreement. The Colorado Supreme Court ruled that if a salesman does not have authority to bind a dealer to a written agreement, but represents himself as having such authority, the dealer is bound to the agreement by the doctrine of apparent authority.

3) Still another problem, according to the Motor Vehicle Dealer Board, concerns unlicensed individuals who are purchasing vehicles for dealers and wholesalers. Anyone who purchases vehicles for a dealer must be licensed as a salesman.

The Board announced that these business practices are illegal, and said they are punishable by suspension or revocation of the dealers', wholesalers', or salesmens' licenses, up to and including possible civil penalties.

Manufacturer cannot be sued where dealers signed valid release

The U.S. District Court for the District of Minnesota has ruled that a general release barred a Ford dealer from filing suit against Ford under the Automobile Dealer's Day in Court Act. (*Schmitt-Norton Ford, Inc. v. Ford Motor Co.*, No. 4-81-191, D. Minn., 10/21/81). The basis of the complaint had been Ford's pressure to force the dealership to relocate, and its alleged treatment of the dealership after the move.

In 1961, Schmitt and Norton became sole equal shareholders and corporate officers in Schmitt-Norton Ford, Inc. when they entered into a dealership agreement with Ford Motor Co. and signed a 20-year lease for an Edina, MN location. Then, in 1972, Ford urged Schmitt-Norton to move to a larger location. The plaintiff alleges that Ford threatened to terminate the dealership's franchise if the move was not made. The plaintiff also claims that Ford was misleading as to the relocation costs and the projected profits at the new location, and says Ford failed to supply the vehicles desired by Schmitt-Norton after the move took place.

In 1979, after losing more than $400,000, Schmitt and Norton resigned their dealership and agreed to sell to G. W. Palmer Investment, Inc. The agreement specifically stated that the actual sale and delivery of the stock would not take place until December 28, 1979, but Gerald Palmer elected himself and his wife as the sole corporate directors and voted themselves officers in November 1979. After consulting with attorneys, Schmitt and Norton signed a general release of all corporate and individual claims against Ford on December 26, 1979, and indicated on the face of the release that they were signing in their capacities as corporate officers. The plaintiffs then filed suit against Ford claiming that they were not corporate officers at the time they executed the release because Gerald Palmer was the sole shareholder.

The District Court judge found that the release signed on December 16, 1979 by Schmitt and Norton was valid and automatically barred any causes of action they may have had against Ford Motor Co. The court explained that a release is valid if it is supported by consideration. This requirement was fulfilled when Ford repurchased new vehicles, parts and other items from Schmitt-Norton, Inc. as required under the Ford Sales and Service Agreement in return for the plaintiffs signing the release. The court also found that the plaintiffs were the sole shareholders and corporate officers of Schmitt-Norton Ford until the closing date, December 28, 1979. Gerald Palmer was only a manager during the period between the time the sale agreement was made and the closing date.

Summary judgment was granted to Ford Motor Co. Æ

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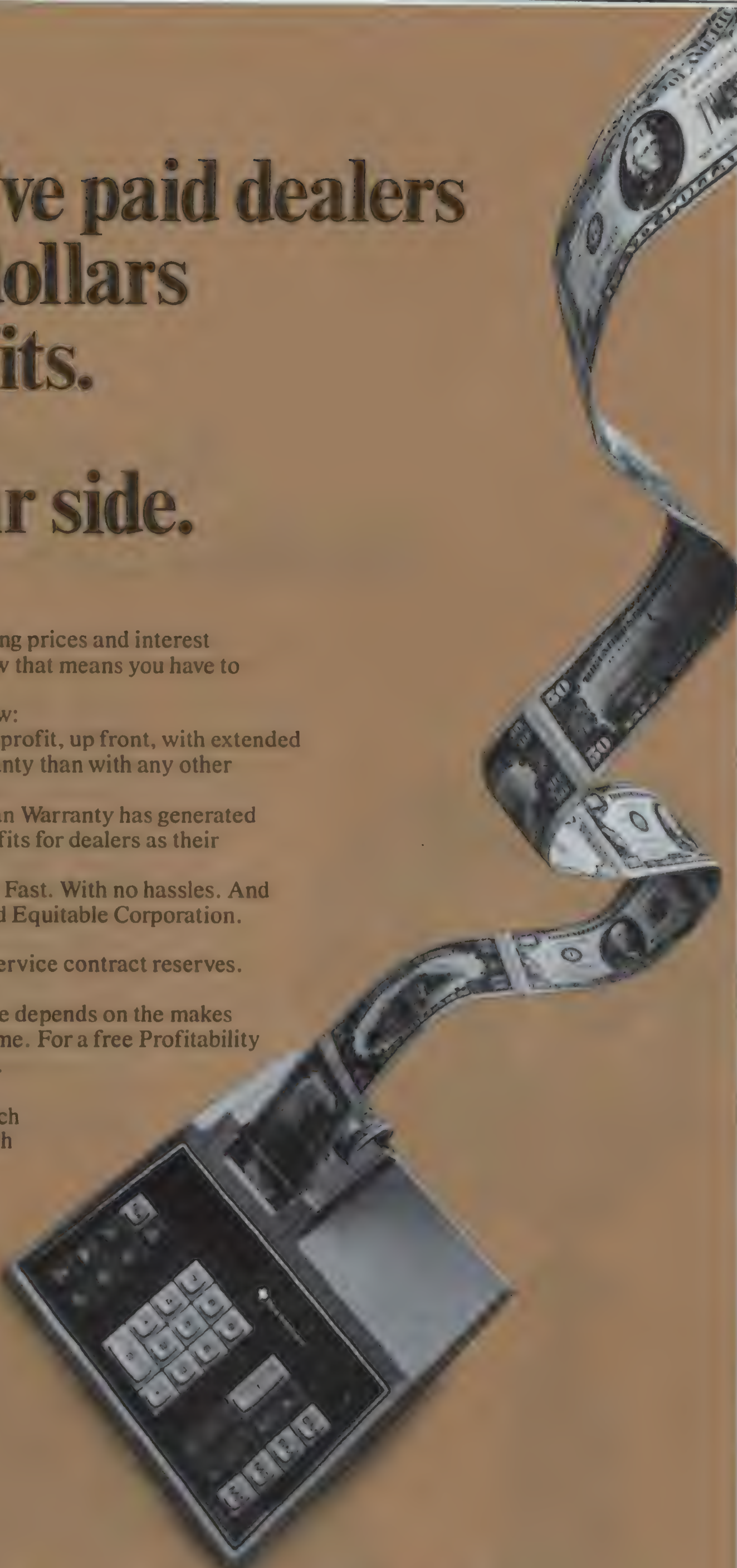

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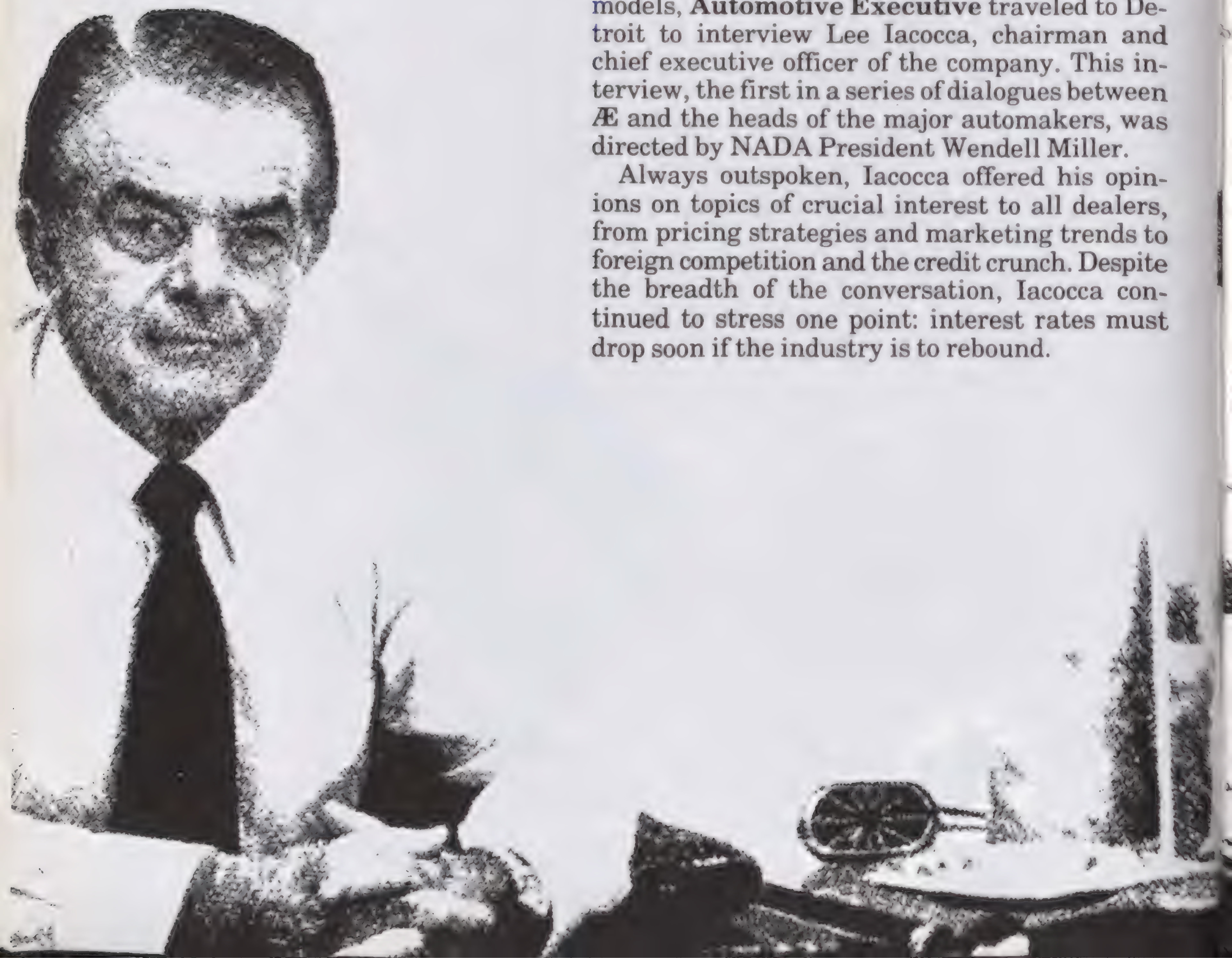
AN INTERVIEW WITH CHRYSLER'S LEE IACOCCA

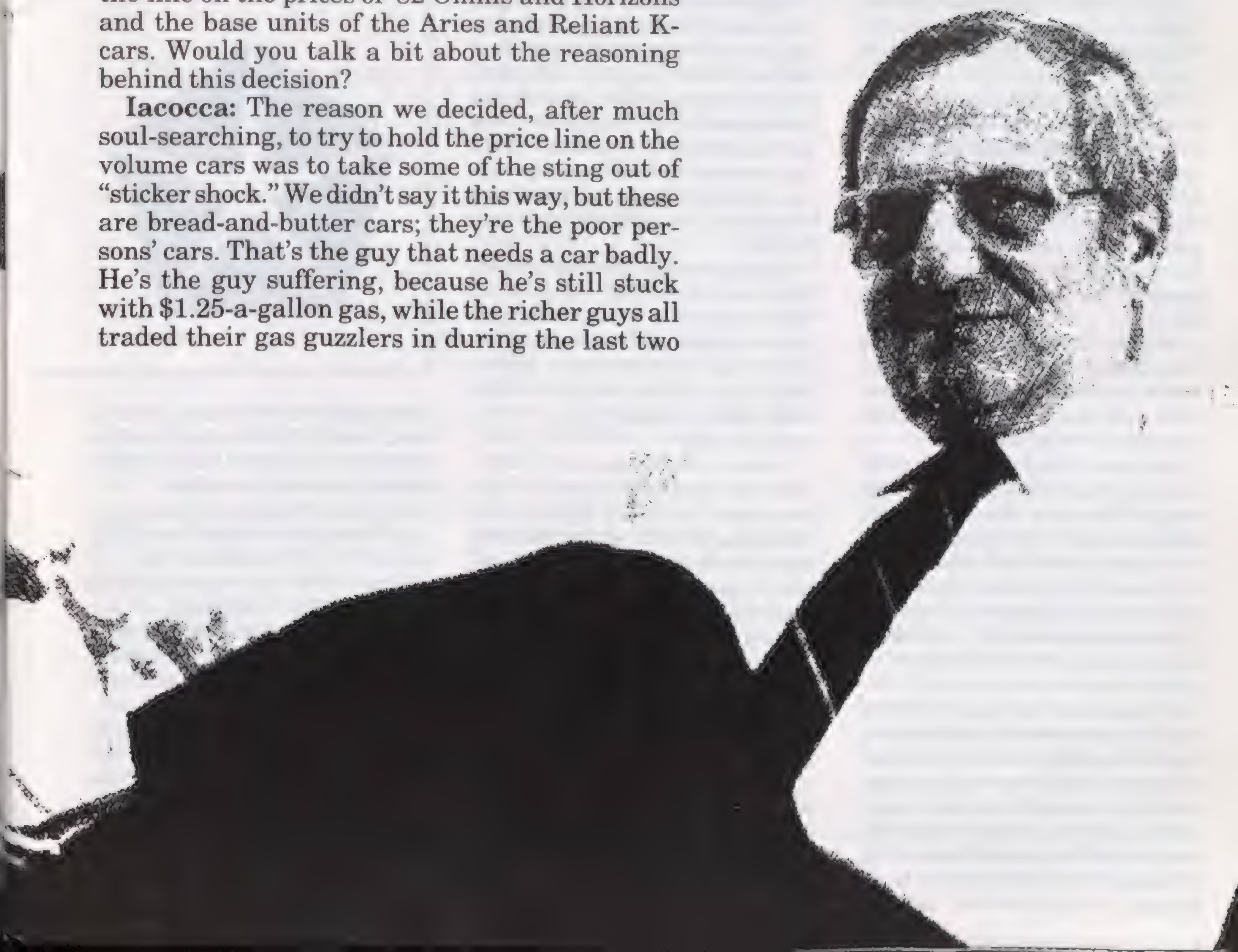


Last fall, one day after Chrysler announced a freeze on the prices of some of its most popular '82 models, **Automotive Executive** traveled to Detroit to interview Lee Iacocca, chairman and chief executive officer of the company. This interview, the first in a series of dialogues between Æ and the heads of the major automakers, was directed by NADA President Wendell Miller.

Always outspoken, Iacocca offered his opinions on topics of crucial interest to all dealers, from pricing strategies and marketing trends to foreign competition and the credit crunch. Despite the breadth of the conversation, Iacocca continued to stress one point: interest rates must drop soon if the industry is to rebound.

Miller: At your press conference September 29, you announced that Chrysler will be holding the line on the prices of '82 Omnis and Horizons and the base units of the Aries and Reliant K-cars. Would you talk a bit about the reasoning behind this decision?

Iacocca: The reason we decided, after much soul-searching, to try to hold the price line on the volume cars was to take some of the sting out of "sticker shock." We didn't say it this way, but these are bread-and-butter cars; they're the poor persons' cars. That's the guy that needs a car badly. He's the guy suffering, because he's still stuck with $1.25-a-gallon gas, while the richer guys all traded their gas guzzlers in during the last two



years. *Their* gas bills have been cut to 62 cents a gallon because they doubled their gas mileage.

To me, the cleanest, simplest way to encourage customers to buy is to hold the price line as long as we can. It's against economics, because inflation continues to drive our costs up, but if people aren't buying cars in August at one level, what makes you think they're going to buy them for $500 more in October just because you declared an introduction day?

If it's an all-new car, like a convertible or a LeBaron, that's different. But the '82 L's and K's are just upgraded, and in the customers' eyes they're not much different than the '81s. The truth is, we didn't think the market would tolerate a price hike. The market won't play to the *present* price; how can you *raise* prices?

So it's not a gimmick. On one-third of our cars, by actual count, there will be no price increase—zero.

The price freeze is part of an overall program we've put together, along with dealer incentives and rebates, to attack the problem of high interest rates. We're hoping the market improves to the point where we can prime the pump with dealer incentives and competitive pricing and drop the rebates.

Miller: The cost of maintaining inventories with current interest rates is unbearable for dealers. How will the current conditions change the retail market?

Iacocca: High interest rates are crippling the industry and the nation. The only time we've been faced with interest rates this high was during the Civil War. Then, for a couple of months, the interest rate was at 12 percent. We never got near it again—*ever*, in our 200-year history—until October of 1979.

If you keep running interest rates up to 20 percent, and then try to get the public used to that level, you're going to destroy this country. The ripple effect off of cars and houses is now getting serious. The number of business failures in the United States has climbed to an all-time high. In the last 18 months, 6,000 building contractors have gone broke. More than 2,000 automobile dealers have closed their doors. Unemployment in the automobile industry alone totals 180,000 people, with additional hundreds of thousands out of work in supplier industries.

Let's face it. We are in a deep recession. Worldwide. The housing industry is on its knees. The farm implement business is closing plants and laying people off. Unemployment in Western Europe is over 8 percent. That is an example of the ripple effect—and if unchecked, it's going to turn into a disastrous tidal wave!

Miller: Demand for new cars is obviously building up. But people can't afford to buy. What would be the best way to release that pent-up demand?

Iacocca: Make credit available. If a guy needs a car badly, the fact that there's no credit available at all, at any price, keeps him from buying. Even a guy who can put 25 percent down, has a job, and has never been laid off in his life can't get financing. It's terrible. Lenders are only looking for prime rate investments. Your marginal guy —forget it. Nobody's going to loan to him.

You can't take the credit-intensive businesses that we grew up with—and there are only two major ones, cars and houses—and put credit out of everybody's reach. The irony of it is the market for both these commodities is there and building.

Never in the history of our business has there been such a high number of potential buyers who have decided to sit on the sidelines because of high interest rates. And there's one simple reason: interest rates have never been so high for so long.

There's plenty of demand for automobiles. We've been running for three years at a level of sales that is well below the trend line. The pent-up demand for new fuel-efficient cars is growing higher every year. There are 42 million old gas guzzlers getting 12 miles per gallon or less out on the road that need to be replaced by 30 mile-per-gallon cars. People *need* new cars.

But if you've just gotten married and want to buy a condominium, I dare you to get a mortgage. And if you just had your first child and want to get rid of your clunker and get a fuel-efficient car, I dare you to get financed.

Miller: How do you feel about credit allocation?

Iacocca: Well, I think we have the most insidious *type* of credit allocation today. If you're the Fed, or you're an oil company, there's plenty of credit. Only it's all allocated at the top of the river, I say. And the guys who hardly need it just happen to be the ones siphoning most of it off. Forget how it got there. That's what they're doing.

I say it's just like it was in the Old West. Sometimes ranchers at the head of the river would divert most of the water for *their* cattle, *their* land and *their* needs. As a result, very little water trickled down to the poor folks farther downstream in the valley.

The same thing is happening today. The guys in control are drawing off all the money at the top. And the river's only so big because Paul Volcker (chairman of the Federal Reserve Board) made it so big. So he's god. He decides on the size of the river and when it will rain.

That's the deal on the money river. There's none left for us, and we're probably two-thirds of the way down the river. There's some poor people who are even further downstream. They're not even going to get a slug of water. But nobody can see that.

There's plenty of money available for Seagrams to make an offer to buy Conoco and for du Pont to actually buy it. There's plenty of money for Sears to buy Dean-Witter. There's plenty of money for the U.S. Treasury to pay the interest on the national debt. There's plenty of money to invest in short-term money markets.

But guess what! Those guys who have diverted all that credit upstream have not created one additional job! They're all making money on money. And those of us who *do* create jobs, who *do* make investments in productivity and want to expand, end up downstream waiting for a few measly drops of water to get through so we can put a few guys back to work.

Well, you know what happened in the Old West. The guys down below got together and formed a posse. They rode upstream and shot the hell out of the people who were taking all the water. Believe me, I'm not advocating violence. But something has got to give!

"The dealers that have the lasting power to hang on are going to have a great vacation someday—if they are still alive."

And something has to give in both directions—both in fiscal policy and monetary policy.

So I believe in credit allocation. I know it's an anathema to Reagan. You don't want to completely manage the economy, but something needs to be done.

Volcker tunes the M1-B (an important measure of money supply, defined as the total amount of cash in circulation and in financial transaction accounts) every Friday at 4 o'clock. Hell, is that free enterprise? That's one small group deciding what to do that day.

What are they talking about, free enterprise? For whom? Isn't the IRS's progressive income tax an allocation? The rich guy pays a little bit more progressively, but he gets a lot more kickbacks now. Is that government interference with private enterprise? Sure. That tactic is accepted. The government decides what it needs and taxes you accordingly, and you have no recourse.

We must make credit available for the purchase of cars and housing. Those of us who provide jobs, pay taxes, invest in new technology and generate revenue need to get some of that water downstream. We need to get some action on our own revenue side.

Beginning immediately, the Federal Reserve Board should establish a policy of informal credit guidance or credit conservation, if you will. They should nudge the banking community into supplying credit at more favorable rates to job-creating industries such as cars and housing. They should "tilt" money away from those whose investments create no jobs, and toward those which do.

I have 600,000 jobs. Yet I've got to go on the TV cameras for a lousy $1 billion. That's because we have a name, a brand name. In the past 12 months, Sea Train, the container company, went bankrupt and stiffed the government for $600 million. It got one line in the *Wall Street Journal*. We must have done something wrong to be so popular.

It is true that we have borrowed $1.2 billion at 15 percent or so, guaranteed by the U.S. Government. But we have to pay that money back, with interest, in the same manner that the other $450 billion of federally guaranteed loans must be repaid.

The oil companies—they're not worried. They don't hire any people. They're fighting on how big their windfall profits will be. They're making *too much* money. Why don't we take some from them?

As I said at the press conference yesterday, "You've got to get simple-minded about this." Anybody who *produces* oil or has anything to do with the oil industry has an embarrassment of riches—30 to 40 percent returns. And anybody who *burns* oil is in deep water. And who burns oil? Number one, autos; number two, airplanes. Most of the companies in these industries are teetering on bankruptcy.

Nobody wants to own up to the fact that there are all these oil companies siphoning off all the money at the top, along with the Feds. By the time it trickles down, there's nothing left for the credit business.

We're going to be left with no U.S. Steel, only McDonald's stands. "Why worry about it?" say many. "There are more employees at McDonald's than at U.S. Steel." When I read that in editorials in famous papers, my blood wants to boil. Because the McDonald's guy makes minimum wages, and he buys nothing, to be honest about it. He doesn't buy anything. The guys who buy cars and houses are middle class, the guys making $10, $15, $20 an hour. Those are the guys that are getting laid off.

There's something wrong with our lottery and race track called the United States now. There's something wrong. We've gone nuts.

Miller: What effect will President Reagan's economic plan and proposed regulatory reforms have on the health of the industry?

Iacocca: It took 40 years of strenuous effort by a Santa Claus government to create the havoc we have today—40 years of overspending, deficits and devaluation of the dollar. We started slowly in the 1930s, and over the years we added layer upon layer of well-intentioned social programs designed to achieve a redistribution of wealth. We created the cost of living measurement, and we tied salaries and pensions and welfare benefits to it. We created dozens of government agencies to administer these benefits. Then we created budget deficits and higher taxes to close the budget gap. We even created a unique system called "bracket creep," in which inflation alone drove people into higher tax

(continued on page 37)

Business In Print

"Productivity Prospects for Growth;" edited by Jerome M. Rosow; Van Nostrand Reinhold; New York, NY; 1981; 340 pages; $19.95

The loss of productivity in American business is a hot topic . . . and getting hotter. That's because the problem of sagging productivity affects the office as well as the assembly line, the executive suite as much as the typing pool.

The latest volume of the Work in America Institute series, edited by Jerome Rosow, the Institute's president, is its best and most important effort. The list of contributing writers reads like a "Who's Who" of authorities in the field of business productivity.

Contributors include Reginald Jones, chairman and chief executive officer of General Electric; Douglas Fraser, president of the United Auto Workers Union; and John Diebold, chairman of the Diebold Group Inc.

The most startling aspect of the book, however, isn't that so many people with impressive credentials could be gathered between its covers. It's the fact that so many of the contributors agree on what needs to be done to spur American productivity. Their opinions are laid out by Rosow in blueprint fashion. Some elements of this blueprint are predictable, such as tax incentives to encourage modernization, and reduction of government regulations.

The real surprises are related to worker-management relations. Senior labor officials talk about tightening the link between labor and management, and managers suggest ways of involving employees more closely with business goals. These statements indicate a willingness to change outmoded management styles.

Only business management can take the lead in the way it organizes and directs people toward profit-making objectives. Although everyone gives lip service to the so-called Japanese model of management, too many managers have written off the style as inappropriate to the American experience. The chairman of Donnelly Mirrors Inc., John Donnelly, however, points out just how short our memories are: "The whole organization development movement was originated in the United States in the postwar years, and the Japanese listened, I think, a bit better than we did. Books—like the 'Managerial Grid'—were quickly translated into Japanese. They had the information after we did, but *they* put it into broad use."

Let's hope this book opens up the discussion once again. Æ

Here are the current Top Ten best-selling books for business. The list is based on sales figures obtained from retail bookstores throughout the United States.

1.) "Theory Z;" by William G. Ouchi; Addison-Wesley; $12.95 (1)
A new theory on how to boost business productivity.
2.) "Money Dynamics for the 1980s;" by Venita Van Caspel; Reston Publishing; $15.00 (3)
One more guide for money management.
3.) "Wealth and Poverty;" by George Gilder; Basic Books; $16.95 (4)
How government can help the growth of free enterprise.
4.) "What Color Is Your Parachute?" by Richard N. Bolles; Ten Speed Press; $6.95 (6)
How to change careers and jobs.
5.) "The Soul of a New Machine;" by Tracy Kidder; Atlantic/Little, Brown; $13.95 (7)
The creation and awakening of a microcomputerized age.
6.) "You Can Negotiate Anything;" by Herb Cohen; Lyle Stuart; $12.95 (5)
How to gain the competitive edge.
7.) "The Third Wave;" by Alvin Toffler; Bantam; $3.95 (8) †
As society goes, so goes the marketplace.
8.) "The Art of Japanese Management;" by Richard T. Pascale and Anthony G. Athos; Simon & Schuster; $11.95 (2)
Transferring Japanese experience to American managers.
9.) "The Coming Currency Collapse;" by Jerome F. Smith; Books in Focus; $12.95 (9)
Another survival book for business.
10.) "William E. Donoghue's Complete Money Market Guide;" by William E. Donoghue with Thomas Tilling; Harper & Row; $12.95 (10)
Making inflation work for your business and you.

( ) = indicates last month's position on the list
† = indicates a paperback previously on the list as a hardcover edition

This column is prepared as an automotive exclusive for **AE** *by Henry Holtzman, a nationally known business writer. All comments or questions pertaining to this column should be mailed to:* **Business in Print, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

Convention '82

Old South Meets New

Atlanta has undergone a transformation over the last 20 years that perhaps has not been rivaled by any other city in America. Partly because of the change, it *is* the special place that it is. But beyond that, the almost unique ingredient that gives Atlanta the personality it has today is the fact it has never tried to forget its heritage.

Next month—from the 20th through the 23rd—this city, whose history is almost synonymous with the word, "renaissance," will be host to NADA's nose-to-the-grindstone effort to help dealers initiate a significant revival of their own.

It's a city with a subtle and curious blend of ideas, cultures and lifestyles. It began to take shape in the 1830s as a terminus for the Western & Atlantic Railroad, and from that beginning, it grew into a major crossroads—thriving as a rail, manufacturing, warehousing and distribution point.

Less than 30 years later, almost everything that contributed to that growth was destroyed. Union Army General William T. Sherman put the major supply center for the Confederacy under a 117-day siege, and then he put it to the torch.

The survivors, however, along with people from the North and other parts of the country who believed in the future of the burned-out city, turned tragedy into an opportunity: They decided to build something considerably more ambitious than what had existed before.

When Sherman marched from Atlanta to the sea and to the close of the war, only 400 of the 3,600 homes and buildings that had stood before him remained in his wake. But in 1866, Atlanta was made the federal headquarters for the Reconstruction, and two years later, it became the Georgia capital. The rebound gave rise to a city emblem, the Phoenix—the mythical bird that perished by fire only to be reborn from its own ashes—and also a motto, *Resurgens*.

One hundred years later, in the early 1960s, it became clear that if the city were to become a vital part of America's 20th-century economy, it would have to look to that motto again. The initial, obviously resolute step toward the age of chrome, concrete and glass was taken in 1965 with the construction of the city's first hotel in 10 years.

That monument to change was followed by the erection of one of the largest wholesale merchandise marts in the country. Rapidly, a radically revitalized downtown began to become a reality.

Today, the six blocks lining Peachtree Street hold office towers, shops, restaurants, night spots and hotels, including the 73-story, 723-foot cylindrical structure that is the world's tallest hotel. Many of the buildings are linked by glass-enclosed aerial walkways, and they're laced with sculpture, trees, murals and other touches that have transformed the area from a place to get away *from*, to a place to travel *to*.

The nucleus of downtown is Peachtree Center, where the revolutionary hotel designs of architect/developer John Portman made their debuts. His soaring atrium lobby and revolving rooftop restaurant/lounge were so astounding, they set the tone for inner-city facelifts across the country.

No more than five blocks from the Center is the Omni International complex, rather stunning itself. It has six acres under its one roof and just about everything in the realm of food, accommodations and entertainment one can think of, including an Olympic-size ice rink. Next-door is the Omni sports coliseum, the 17,000-seat home of the basketball Hawks.

The central business/conven-

tion district is compact. Everything, basically, is within an easy eight-block walking radius. Across from the Omni International, for instance, is the Georgia World Congress Center, one of the largest single-level exhibition halls in the nation, and home for most of NADA's upcoming convention activity. It was built just five years ago.

In that Center will be a slate of workshops that figures to be excellent by any past convention's standard. A total of 31 different titles will be offered, and most will be presented at least three times. One workshop, in particular, will deal with the service writer. Another will discuss preventing dealership embezzlement. Others will explore training sales personnel, personalities and management, understanding body language, developing service professionals, hot legal topics, dealership acquisition, vehicle inventory control, LIFO, estate planning, common body shop questions, advertising tips, starting a leasing company, service tips, finding used vehicles and used vehicle pricing, to name a few.

The information available in the workshops *may* be the biggest reason many people attend the convention, but it is far from the

only reason dealers will find this convention worthwhile.

The exhibition space is, and has been, sold out, and that means there will be a large amount of new technology and other innovative ideas for dealers and managers to peruse and evaluate.

There will be, as usual, two general sessions: one on the opening day, Saturday the 20th, and one on the following Tuesday. On Saturday, the guest speaker will be the president of General Motors Corp., F. James McDonald, and it will be the first chance for dealers en masse to hear his views on the industry's prospects in today's economic climate. Tuesday's speakers will be Senator Paul Laxalt (R-NV—a close advisor to President Reagan—and well-known broadcaster Paul Harvey.

With regard to entertainment, the highlight of any convention, it seems, is the NADA Diamond Dinner, held the night of the convention's close. This year, the music will be in the charge of not only Tex Beneke and his Orchestra, but also Danny Davis and the Nashville Brass.

Other diversions set up by the NADA convention department include: the Atlanta Tour program, set for Sunday at 12:30 p.m. and Tuesday at 9 a.m.; the shopping shuttle, leaving periodically on Monday from the World Congress Center, beginning at 9 a.m.; the fashion show, set for Monday at 10 a.m.; and the Polly Bergen program, featuring the actress speaking on "The Psychology of Being a Woman." It's set for Monday at 3:30 p.m.

The '82 Life Style Center will be open each day of the convention, and its "park" setting will truly be an interesting place to spend some free time. "Springtime in Atlanta" will be the theme, and fortune tellers, caricature artists, sports professionals, craft displays and a sidewalk cafe will be among the attractions.

If you have the time and inclination to explore the city and the surrounding area, our advice is to do it. You can step back in time a bit just by traveling a short distance north of Atlanta to Roswell. The small community boasts a number

of pre-Civil War homes, and the childhood home of President Theodore Roosevelt's mother, Bulloch Hall, is preeminent among them.

More living history can be found 16 miles east of Atlanta, at the 3,200-acre Stone Mountain Park. The recreational/educational facility includes, among other things, an authentically recreated antebellum plantation where once-lived-in homes and out-buildings help a visitor experience the real flavor of the early and mid-19th century South.

In Atlanta itself, you can get an idea of how the *middle-class* farmers of the period lived. Typical of their dwellings is the Tullie Smith House, a six-room farmhouse with out-buildings that has been restored and maintained on the grounds of the Atlanta Historical Society.

On the same property is an example of a later, more opulent era: the 1920s Swan House, an Anglo-Palladian style mansion that was a private residence until 1965.

Along downtown's Auburn Avenue is the area dubbed, "Sweet Auburn"—the economic heart of the black middle class since the early 1900s. There you'll find the birthplace of civil rights leader Martin Luther King, Jr.; Ebenezer Baptist Church, where the Reverend King was pastor; and his tomb, guarded by an eternally burning flame.

Dealers and managers interested in taking more lengthy trips before or after the convention can choose from a lot of attractions.

About 80 minutes down I-85 South to U.S. 27 are *two* opportunities for sightseeing and relaxation: Callaway Gardens, in Pine Mountain, and the "Little White House," FDR's hideaway in Warm Springs.

Callaway Gardens is a 2,500-acre combination horticultural haven, family resort and meeting center that sits in the midst of the west Georgia foothills of the Appalachian mountains. It has some beautiful woodlands, scenic drives and walking trails, as well as Callaway-sponsored bus tours of the area.

However, Callaway also has, for those who want a little action with their nature: four golf courses; 19 lighted tennis courts; 13 man-made lakes, including the 165-

acre, bream- and bass-stocked Mountain Creek Lake; horseback riding; and bicycling. On a separate 1,000-acre hunting preserve, there is year-round skeet and trap shooting, and also some October-through-March quail hunting.

Warm Springs is the area President Roosevelt first visited in 1924 for treatment of his paralysis. In 1932, he had a six-room frame cottage built there, and, sparse as its furnishings were, he frequently visited it during his presidency to escape the pressures of his Office.

He died in the Warm Springs house on April 12, 1945, and his model ships are on display there now just as they were on that day. Elizabeth Shoumatoff's famous "Unfinished Portrait" of FDR still sits alone on its easel in the cottage living room.

The president's 1938 Ford convertible, equipped with specially fitted hand controls, is on display on the grounds, and there are several other mementos to be seen, as well as the documentary film, "A Warm Springs Memoir of Franklin D. Roosevelt." Gates stay open 'till 4:30 p.m.

Since Georgia's high and low temperatures in late February are usually in the high 50s and high 30s, respectively, you might want to visit Lake Lanier Islands, 45 minutes north from downtown Atlanta on I-85 and GA 365. Many of the activities in this "inland water playground," as it's billed, are ideally suited to the spring-through-fall seasons. Nevertheless, you might be interested in Stouffer's PineIsle Resort Hotel. It features an 18-hole championship golf course, an indoor/outdoor pool, a health club, indoor and outdoor tennis courts, and so on.

Fifty-six rustic cottages are also available there, replete with wood-burning fireplaces, outdoor decks, and central heat and air, and the islands have also made room for several recreational vehicle sites. Houseboats are available, too.

Our final suggestion concerns Madison, GA, about 60 miles southeast of Atlanta. This is the place to visit if you've seen every Civil War and pre-Civil War mansion we've mentioned and still hunger for more.

Madison boasts more than 40 residences, churches, former inns and taverns of 100-year-plus vintage. They're vestiges of what was once called, "The most cultured and aristocratic town on the stagecoach route from Charleston to New Orleans."

The city escaped widespread Union Army destruction during the Civil War, simply because of the intervention of U.S. Senator Joshua Hill—not only one of the few opponents of Georgia's secession from the Union, but also a personal friend of General Sherman's family.

You can take advantage of Madison's good fortune by visiting the area's plantations, or perhaps the plantation owners' townhomes—most of which were built in the 1830-1860 period.

Other dwellings still on view today range from the simple Piedmont Plain style of the early 1800s to the ornate gingerbread facades of the 1880-1890 Victorian era. Also, Madison still exhibits examples of Greek Revival, Neo-Classical, Queen Anne, Federal and New Orleans-raised-cottage styles of architecture as well.

The Atlanta area, in short, has a lot to offer the convention visitor, regardless of what his or her main leisure pursuit might be. Nineteen-eighty-two might just prove to be another case of the perfect city matched to the perfect convention. We hope you can be there. Æ

MONEY SEN$E

If you are aiming for sizable speculative profits, and if you are willing to accept the commensurate risk of loss and have sufficient capital, you might consider stepping into the fast-paced world of the commodity futures markets. You can trade futures contracts on more than 40 different commodities, including grains, livestock, precious metals, basic foods, Treasury securities and foreign currencies. You can pick those contracts which seem to offer the greatest current profit potential.

The Mechanics of Futures Trading

A futures contract is a legally binding agreement between a buyer and a seller for a specific amount of a specific commodity to be delivered at a specific place at a designated time in the future for a specific price agreed upon when the futures trade is made. However, when you trade commodities, there is no need to get involved with taking or making delivery of the actual commodities. In fact, most futures traders take their profits and losses by buying (if they previously sold) or selling (if they previously bought) identical contracts before the contract date is reached.

The price of a futures contract reflects what people think the supply and demand, and, in turn, the price of a particular commodity will be in the future. Futures contracts are traded in several different delivery months concurrently for periods of up to one or two years ahead. The contracts are standarized so they can be freely traded back and forth on a regulated commodity exchange.

Generous rewards are possible because of the tremendous leverage in the futures markets. The initial margin deposit to buy or sell a particular contract may only be 10 percent or less of the contract's face value. So a 10 percent price move might give you a 100 percent return on your money. Leverage works both ways, however. Losses in the futures market can be substantial and they can happen quickly.

The most important factor to keep in mind is that successful speculators are judicious speculators who only take carefully calculated risks. Commodity futures make good speculative vehicles not only because of the outstanding reward potential involved, but because sound money management and trading principles can be applied to reduce the risk of loss.

Here are some tips to help you speculate successfully in commodities:

1. Cut your losses and let your profits run. Most successful commodity speculators have more losing trades than profitable ones over the long run. They make money by keeping losses small and letting profits run as long as the market is moving in the right direction. Undisciplined speculators stick with losing trades —hoping against hope that the market will turn—and then they close out winning positions too soon whenever a paper profit appears.

So you need a trading plan from day one. Set aside profit objectives and downside loss limits from the outset with every trace. When you reach either of these prices, reevaluate the situation to see if it is time to close out the position. Being stubborn with a losing position is almost always a losing proposition.

2. Have adequate trading capital. Sufficient trading capital is essential to give you the flexibility the fast-changing markets require. Many brokerage firms require that you have $100,000 in liquid net worth and that you make an initial deposit of $10,000 in your commodity account to begin trading. It is also recommended that you limit your futures trading commitment to 10 percent of your liquid net worth.

3. Do not overcommit your capital. If you commit your trading funds conservatively, you can move out of a position without serious damage if you guess wrong on the market. For instance, you might put 10 percent of your available speculative funds into each of four different situations. If one position remains static, another moves in your favor and the other two move against you, you can wait out the first, add to the second and eliminate the remaining two positions.

4. Do not neglect short sales. Many speculators willingly go long in the market (buy futures) but they are reluctant to go short (sell futures) because they do not like the idea of selling something they do not own. However, when prices start moving down, you can miss significant trading opportunities if you hesitate to sell short.

5. Never base your trades on hunches. Thorough research and analysis should support each of your trading decisions. Full service brokerage firms frequently offer a variety of fundamental, technical and computer research services that can help you speculate wisely. ÆE

This column is prepared as an automotive exclusive for ÆE by Bill Waters, Director of Marketing Services with Merrill Lynch, Pierce, Fenner & Smith. Reader comments and inquiries should be sent to: **Money Sense, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

The Energy Crisis is Over!

How we beat OPEC

by
William Tucker

Reprinted from the November, 1981, issue of Harpers Magazine.

The inevitability of price controls for the benefit of consumers creating shortages of goods is a cardinal point understood by nearly all economists and only a handful of members of the public. I have searched for a metaphor for this phenomenon, and finally found one in an experience a friend of mine had in the Peace Corps. He and his colleagues were trying to teach Indian village women the rhythm method of birth control by giving them a string of 30 beads that represented the days of their menstrual cycle. The eight days representing their fertile period were marked by red beads in the middle of the month. Each day they were to move one bead, refraining from intercourse on the red days. After a while, however, they found the system didn't work. When the dangerous days of the month arrived, the women would simply move all the red beads across the string at once. They assumed that this act of magic would prevent them from getting pregnant.

We do the same thing with prices. The market price of a commodity is nothing more than a reflection of its scarcity relative to its demand. When goods become harder to obtain, the price goes up. But we assume that by artificially lowering the price—asking the government to intervene with price controls, that is—we can make a good less scarce. Instead, the opposite results. With prices artificially low, consumers try to buy more of the commodity, while suppliers reduce production because they cannot recover their costs. The result is an artificial shortage, where goods are scarcer than at the beginning. Our confusion of reality and its symbols only makes things worse and precipitates what we hoped to avoid.

As President Nixon's 1971 price freeze remained in place, the American economy became increasingly characterized by a series of surpluses and shortages. With prices held at rigid, artificial levels, the gaps between supply and demand became unavoidable. By 1973, steel, concrete, aluminum, and dozens of other basic commodities were becoming unobtainable on the market. The situation coincided with the Club of Rome's jeremiads and the popular conception that we were quickly hitting the bottom of the barrel on resources. *Newsweek* ran a cover story showing Uncle Sam holding up an empty horn of plenty under the caption *Running Out Of Everything?* Apparently, nobody at *Newsweek* realized that we were only experiencing the inevitable results of price controls (no one, that is, except Milton Friedman, who continually pointed it out in his columns). But by the middle of 1973 the price controls had been phased out, and these shortages quickly solved themselves.

Oil, however, was an exception. So much pressure had already built up behind the price of oil that Congress became afraid to let the market go where it would. It was obvious that the days of 25 cents a gallon for gasoline were over. Yet Congress shunned the cure for America's falling domestic production. Oil became the only exception to the general abandonment of price controls; protection was extended through 1975.

Meanwhile, barely noticed events in the Middle East were beginning to indicate that "cheap foreign oil" wasn't going to remain

cheap for very long. In 1969, a colonels' revolt in Libya overthrew the pro-Western monarchy. The new military regime, under Colonel Muammer Qaddafi, soon realized it was supplying both Europe and America with low-sulfur oil that could hardly be matched anywhere else in the world. In 1970, the new government imposed a 20-cent price increase on its concessionaires. The oil companies fussed and fumed, but soon realized that there were no American Marines or strategists for the Central Intelligence Agency waiting in the wings to correct the problem. (In the last such incident, which neither the oil companies nor the producing nations had ever forgotten, the attempt by Mohammed Mossadegh to nationalize Iran's oil concessions and impose a price increase on Western consumers had resulted in a coup masterminded by the CIA, and the installation of the shah. On the eve of the Arab oil boycott, President Nixon was still publicly reminding the Middle Eastern states to beware the "lesson of Mossadegh.") Finally, the oil companies accepted the price increase; they had no choice.

Soon a moribund debating society, the Organization of Petroleum Exporting Countries, founded in 1960 at the instigation of Venezuelan oil minister Juan Pablo Perez Alfonso, was meeting in earnest in Vienna. By September 1973, OPEC members were presenting a solid front to the oil companies and negotiating for an across-the-board price increase of 53 cents to match Libya's efforts. The oil companies protested and said it was impossible. In truth, though, they weren't sure. When the negotiations finally broke down, Sheikh Yamani, the Saudia Arabian OPEC minister, said that the producing nations might just go ahead and do it anyway.

Yet all the while American consumers remained oblivious. Blinded by the continuing price controls, we went on guzzling gas in ever greater amounts as if nothing had happened. Few people were aware that we were importing *any* of our oil, let alone 30 percent. British journalist Anthony Sampson, whose book *The Seven Sisters* describes the events leading up to the boycott, says that an "air of unreality" began to enshroud those American businessmen and politicians who could actually see what was happening. In 1972, we set an all-time record for oil consumption, and were headed for another in 1973. When several oil companies formed a delegation to try to warn Nixon administration officials of the growing restiveness in the producing countries, they were politely ignored. On the day Sheikh Yamani and the OPEC ministers broke off negotiations with American oil firms in October 1973, no American newspaper carried the story.

What happened next, of course, is history. The Arabs realized their growing market leverage and exercised it in the oil boycott during the 1973-74 Arab-Israeli War. The result of this deliberate supply interruption was the first of the "gas shortages."

But the boycott was over by March, and gas lines ended well before that. Far more important was that the producing nations —to their surprise—found they had a stranglehold on the Western oil market. They quickly raised prices to seven times their 1970 levels, setting in motion what was later called "the greatest and swiftest transfer of wealth in history." Over the next year, some $112 billion flowed out of consumers' pockets and into the coffers of the oil-producing nations.

What should we have done? Obviously, we should have increased domestic production and cut consumption. The formula for this was not really very difficult. Domestic oil price controls were already artificially discouraging production and stimulating consumption. Getting rid of them would have been the easiest step of all. Then, had we been really serious, we could have done what the Europeans and Japanese have done for decades and taxed consumption, particularly consumption of foreign oil. This was exactly what President Ford tried to do in January 1975, when he began his state-of-the-union address by asking Congress to abolish price controls and impose a two-dollar-a-barrel tax on foreign oil. He promised that reducing imports would be the first priority of the administration. Had the nation been willing to give President Ford a hearing, we might have avoided some of the turmoil that followed. Congress, however, had its own ideas.

The battleground became the 1975 Energy Policy and Conservation Act (a political euphemism if ever there was one). At first, Congress seemed willing to go along with President Ford's assessment: foreign dependence was a problem, and price controls were only making things worse. But then a suburban rebellion began in the House of Representatives. Congressmen Andrew Maguire (NJ), Richard Ottinger (NY), and Toby Moffett (CT)—all liberal Democrats representing three of the wealthiest suburban counties in the New York area—began a campaign to extend oil price controls. Joined by figures such as Edward Kennedy (D-MA), Howard Metzenbaum (D-OH), James Abdnor (D-SD), and Henry Jackson (D-WA) in the Senate, these legislators eventually succeeded in getting through a decision to extend price controls all the way through 1979 and possibly beyond. Not only that, the Energy Research and Development Administration was instructed to *lower* the price of domestic oil in February 1976 in order to punish the oil companies. It was Congress' election-year present to the nation for 1976.

It worked well. Large Democratic majorities were returned to Congress at the end of the year, with a new Democratic president to lead them. Consumers were already celebrating by surging back to big cars and guzzling gas again as if the boycott had never happened. Everything seemed fine. Yet the oil price controls remained a time bomb ticking away in the American economy. It finally exploded in 1979, and perhaps helped to carry away the Democratic administration with it.

Few people seem to realize that OPEC's monopoly of the market lasted only about three years. Like any monopoly, it quickly attracted new competition into the field. From 1974 to 1977, the relatively few oil-producing countries probably could have charged any price they wanted to Western consumers. Europe, in particular, had long been accustomed to easy access to Middle Eastern oil, and had few alternatives.

But, as always, the success of a monopoly was also its undoing. The new high price of oil sent geologists scurrying out all over the world looking for new reserves. Britain and Norway developed the fields under the North Sea, the American oil companies were allowed to finish the Alaskan pipeline, and dozens of other small countries began to find and develop deposits. Mexico, it turned out, had had oil all along, but hadn't wanted to reveal its resources for fear of being exploited, as the Arabs had been for decades. In addition, the old patterns of ever-increasing consumption were quickly reversed. Yale economist Paul MacAvoy has calculated that OPEC's price distortions only lasted from 1974 to 1977. By that time, the market forces had caught up and supply and demand were back in balance, promoting the wise and efficient use of resources everywhere.

Everywhere, that is, except the United States. Here, unfortunately, events had taken a different turn. Almost from the day in February 1976 when Congress had instructed that the price of domestic oil be lowered, Americans had once again rushed back to their old pre-embargo habits. Over the next 12 months, big-car divisions of the 3 major auto companies broke sales records in every month of the year. Small cars were left sitting in the lots, and even huge rebate programs failed to win back the public to conservation.

Gasoline consumption also resumed its pre-embargo climb, surpassing the 1973 record in 1977, and breaking it again in 1978. We were headed for even higher consumption in 1979, until events in Iran put a stop to it. Domestic producers, on the other hand, could not begin to hope to make back their money from drilling for new oil. They sat on their hands or put their money into real estate. Once again, there was a shortage of domestic oil. And yet there was no time between 1976 and 1979 that motorists couldn't get gas. How did we do it? The answer is the same. We made up for our self-inflicted domestic shortages by importing still more oil. From the crack of the gun in February 1976, our imports once again took off, climbing from 33 percent to almost 50 percent by mid-1979. In fact, it's a good thing the Iranian revolution happened when it did. Had things gone on any longer, the eventual crash, whatever form it took, would have been far worse.

Just about everything Congress did to solve the energy crisis in the 1970s was aimed at one thing —keeping cheap gas flowing to the consumers. Washington was filled with liberal congressmen singing the joys of conservation and wringing their hands about foreign dependence. Yet not one of them was

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USED CARS

The Role of Wholesalers

There is one facet in the distribution of automobiles that has always held a special attraction for me—wholesaling. I know a few wholesalers, and they seem to do rather well as far as income goes. In fact, two wholesalers I have known for some time have very successful operations.

A few years ago, my associate, Dave Gribbin, wrote an article about a family operation, but the subjects were reluctant to say very much. I plan to do an article for Æ on another family in the wholesale business, but I also note some reticence. As one friend said: "Come warm weather, the so-called wholesalers come crawling out of the woodwork. Not many hang in there week after week."

So, what's the big deal about wholesalers? Well, I guess the very description suggests they buy at one price and sell at another. If auto wholesalers were trading in currencies, I guess one could call it arbitrage. The point that intriques me the most is the extent to which wholesalers are localized. I'll bet most operate within a 100-mile radius, perhaps even 50-mile.

Some wholesalers buy cars and recondition them for resale. I can understand these people more than those who sell the car as they bought it, with the possible exception of a wash. The reconditioner trades as much on his reputation as a recon specialist as he does on his ability to gauge the market.

Consider a situation in which a wholesaler trades in a major urban market. Let's say there is at least one volume auction in this trading area. Let's further assume the trader restricts himself to a certain category of cars. (No one can be an authority on everything on wheels—not even those who think they are.) Furthermore, let's assume the wholesaler has the foresight to let it be known in the area that he is a specialist in certain types of cars . . . from whatever source.

Given these conditions, the trader becomes an expert in the market for this line of cars. This may give him an advantage when he deals with the public or when he buys from a dealer who finds himself with a "strange" car. But shouldn't dealers also be experts? If a *wholesaler* has some knowledge of prestige imports, wouldn't one expect *dealers* who sell such cars on a daily basis to be even more knowledgeable? What is it that apparently gives the wholesaler a slight edge? Please, don't tell me about crooked used car managers and under-the-table money. Of course, this kind of thing does exist, but I know many successful wholesalers who wouldn't even *consider* dealing that way.

The performance of wholesalers seems to be even more mercurial than that of retail dealers. Wholesalers have some very good weeks, but they also often descend to new depths in the pits. I have often wondered what is cleared per unit or on a group of units. One guesses that every car is bought with the intention of selling it at a profit, but experience teaches us there must be a bad apple, or two, in every barrel. The vagaries of the marketplace must be considered: in the past three months alone, we have seen how quickly a hot market can chill, and how someone not accustomed to carrying inventory may find himself with a stable he has to feed for a while.

I suppose we all have fantasies of making an easy living derived from our special skills, experience or just "superior intelligence." Personally, I suspect I am deficient in all three areas, because I find myself still working at a regular job. Many years ago, when we were in a boiling stock market—when everything on the market was appreciating—I thought I had found my place in life. The hours sounded great (when does the market open . . . at ten?). Besides, I thought, a couple of good trades a week should put enough meat on the table to permit ample leisure time.

It was a good thing for me that I never let that plan get past the fantasy stage. You have no idea how many stocks I have bought "right," ridden up, and then, due to greed, ridden right back down again. I would say I am the type who would have loaded up on Lin-

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This column is prepared exclusively for **automotive executive** *by James "Harry" Lawrence, editor of the NADA Official Used Car Guide. All comments or questions pertaining to this column should be mailed to:* Used Cars, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.

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brackets, destroying their incentive to work and to save.

Now, I'm all for controlling inflation through a program of fiscal and monetary controls. But it now appears that the people who control the money supply have decided to break the back of inflation with one single blow. I would like to suggest that it won't work. It's not that simple, and it can't be done that fast.

One does not depressurize a deep-sea diver in five minutes. One does not reverse 40 years of economic policy in 40 days. Yet that is precisely what we're trying to do now. In an atmosphere that screams for a policy of economic gradualism, we have some men in a hurry who have sold us a policy of instant solutions to long-range problems. It won't work!

We must reduce the budget deficit through a modification of our tax policy. President Reagan's tax cut program was a sound action, designed to increase savings, investment in new technology and economic growth. It ought to stand for the long term, because in the long term it will work. But in the short term, it is increasing the size of the budget deficit precisely when the deficit must be reduced.

If the United States continues to increase the size of its deficits through too large a tax cut, it has no choice but to pay the additional interest on the national debt through increased borrowing in the credit market. In the process, it will crowd out other borrowers, heat up the demand for money and force short-term interest rates up into the stratosphere again.

The budget has already been cut severely, although it's hard to see why a few billion more can't be taken out of defense. You can't cut Social Security, Veterans' Benefits, Aid to Dependent Children and school lunches any more. So you have no choice. You have to raise revenues.

I would try for somewhat higher taxes, but Reagan painted himself into a real corner on that one. The government should institute a 12-month crisis tax or some other type of tax.

How about a one-year user tax on specific commodities? Oil, gasoline, cosmetics, liquor, tobacco—everything except the essentials of food and housing. A 10-cent tax on gasoline alone would raise $10 billion. Maybe a surcharge on imported oil? In whatever form, it would increase revenues and also maintain the consumer shift toward more fuel-efficient automobiles.

Add to that a short-term tax on other consumer items, and you could quickly raise $50 to $60 billion in tax revenues. That brings you so close to a balanced budget you can taste it. A balanced budget brings interest rates down, makes more money available for the purchase of goods and services and provides the foundation for economic growth.

Miller: Assuming that we get out of this traumatic financial situation, how do you look at business for the balance of the '80s? Up to now, everyone seems to think the '80s are going to be a very innovative, exciting, profitable period. What do you think?

When they come in, you shouldn't treat them like they've got leprosy. Think who you're talking to. You're talking to a woman who says, "I don't know what a transaxle is. What is front-wheel drive?" Unless somebody unravels the mysteries for her, she's lost.

That didn't change, being nice to people. Did that change in 30 years? Hell, no. So we've got to train our salespeople on how to handle the public. The salespeople need a lot of cleaning up.

That isn't to say there aren't a lot of first-rate salespeople around. About one-third of our people are top-notch, and they're usually the ones making money, because they close more deals. Guys who do well close two in five. Guys who do rotten close one in five. We're spending $120 million trying to get the people in, and these salespeople are booting them out, four out of five times.

Miller: It's always been important to be courteous, but do you feel it's really going to get critical?

Iacocca: It's absolutely critical. For the guy who used to buy a $2,000 car, that same car is now $8,000. Regardless of what he's making, that's a big-ticket purchase he'd better study. It's like the few houses you buy in your life. You want to check the plumbing, the electricity and everything else to see if they work. If I buy a TV and don't like it, well, I might have been taken for $200. But $8,000?

We all need to do a lot of work in the area of customer relations. Chrysler, Ford, GM—all of us. And that includes import dealers. They get credit for having simpler lines. Their salespeople need less training, and they've been making so much money these dealerships *do* attract the best in the business. Salesmen go where the money is. But those are temporary advantages, up and down. And with good products and good training programs, we can get our share.

Miller: A trend seems to be developing among manufacturers toward consortiums and mergers for both products and parts as opposed to true corporate mergers. Where do you think we are heading?

Iacocca: By 1990, maybe, there'll be a lot of true mergers, but in the decade of the '80s, I think you'll see a lot of sharing of investment on common engine lines or distribution systems. We currently have this type of arrangement with Mitsubishi. Now Mitsubishi is starting its own distribution system, but it has to start from ground zero. We've been selling 200,000 of their cars each year, and we will continue to get a full line—the same cars they get, except for perhaps the grilles.

So you'll see a lot of these kind of ventures in the marketing side, the manufacturing side and the assembly side. And maybe, because of this type of marriage, two companies might like each other so well they decide to merge. It's the wave of the future, but it'll take lot of time.

Miller: How do you look at the changes in pricing strategies?

Iacocca: We always used to do it on an annual basis, but Europe has always done it quarterly, so the last three years we went quarterly, too, led by GM. Now GM went back to doing it annually. So I'll be damned if I know.

We decided *we* wouldn't have a problem; we wouldn't raise prices at all. That's the best medicine. I'm worried more about the strategy of getting the prices of cars *down* than about *when* to pass costs on.

I don't think price hikes will be done on such a regular basis anymore. I think it'll be more in-and-out. I think when your cars are ready, even if it's February, you won't wait for spring or fall. You're trying to get in the ball game. You'll introduce the cars, and you'll put on the best damn price you can, and hope you sell them.

Miller: Would you venture what you think is the maximum interest level dealerships can operate at?

Iacocca: You get used to adversity. If you had told me a couple of years ago that the prime rate would hit 20, I'd have said you were crazy. Now we've had it so long we're getting used to it.

I would say 12 is always my magic number, but 15 would be tolerable, because the retail rate will always be three or four points under the prime. That means that 19 today is more like 15 or 16.

So, I would say a 15 prime, which gets you a 11 to 12 rate for mortgages and cars, would be acceptable. I'd rather see it down at 12, but . . .

Miller: Lee, if you would, give us your thoughts on what you think the role of NADA should be. Basically, NADA performs three functions—government relations, industry relations and business management. Do you have any thoughts on any other areas you think an organization such as ours should operate in?

Iacocca: Well, I think it's a matter of priority. Your biggest responsibility has to be government relations. The factories can't do it, because the factories can't agree on anything.

When a congressman asks, "What is the industry's position?", we often have to say, "We ain't got one." We've lost every political battle in 20 years because of that. Even the handling of Nader.

So I think you're a very necessary force, especially in the government area, because you're the only one doing it. NADA has preempted what MVMA (Motor Vehicle Manufacturers Association) should have been doing over the years and never has.

NADA has had its ups and downs, let's face it. But it should be, by definition, one of the strongest political forces in the world. Because you don't represent just *any* businessman—you represent 20,000 community leaders. And every House of Representatives guy knows it; he always gets money from his hometown dealer. And

even Senators have to respect that you've got an army of guys strategically placed in 50 states. Because you have instant communication with your members, Congressmen fear you. I've always said we have never used the leverage right, but that's another story. Sometimes you do well; sometimes you do poorly.

I am happy to say that over the years I think you've become stronger. But you could become an absolute Superman down there. NADA got the dealers organized on the Chrysler loan guarantee. Even competitive dealers were for it. Congressmen can't afford to throw you out. They can throw me out, but they can't throw you guys out. No way.

Now when you get into dealer relations per se, you also have a role to play. But you don't want to negate your democratic dealer council system, which I've dealt with for four years. If those dealers can't deal with their manufacturers and hack out progress, you aren't going to do it for them. But still you have a role, as far as checking the relationship between what various factories offer. If one factory offers something another factory doesn't, usually it has to match it. So I'd put that second.

"Those of us who do create jobs end up downstream waiting for a few drops of water to get through."

Then as far as helping the overall dealer body, you get into the area of good business management. You should be providing communications to say, "Here's the way it's done. If you want to go look, we'll take you." That's a third big area. You can change attitudes and minds through publications.

Miller: Even though NADA represents small business retail dealers, you feel that because of the nature of our members, we also represent the industry?

Iacocca: Oh, sure. The retail element? You're doing it. Four guys can't agree at a dealer council. How are you going to get 25,000 to agree? Who's going to pull all that together and make it a unified force? You are—your association.

Miller: Would you consider our combined efforts on the Clean Air Act a typical example of the cooperation that is necessary?

Iacocca: Clean air, bumpers, anything like that. You know more about that than we do, really. We do the engineering and the like on the cars. But you're the ones that have to sell the cars to the public and deal with their complaints.

You're not lacking for work right now. You're the guys that can handle interest rates better than we can. You're the guys that can handle the Clean Air Act better than we can.

Miller: I think because of your TV advertisements and appearances that the public has an image of you as a dynamic sales and marketing force. But even some dealers probably aren't aware of some of the administrative responsibilities you've taken on here.

Would you talk a bit about some of the changes you've made at Chrysler, and what you consider your primary role here to be?

Iacocca: The chief executive of any company, no matter how he grew up, has been in sales at one time or another. But I've spent about 35 years on product primarily. And 17 years of school to be an engineer. My whole life's been that, since I was a little boy. So I worry about getting the right quality and products for the people. That's the first priority—always.

And the second priority is to make sure the dealer organization not only likes you but respects you. This kind of relationship is needed if dealers are to go to bat and do the things that have to be done in the service area and the sales area.

Put those jobs at the top. Everything else is secondary, because we exist only at the pleasure of our customers, who want transportation. They've got to be able to afford it and finance it; they want it to start in the morning; and they don't want to give an arm and a leg for good repairs.

Everything else is just peripheral stuff to help make sure those jobs get done. So I spend half my time with the product guys and half my time with the dealers.

Miller: Would you say you've delegated most of the day-to-day responsibilities?

Iacocca: Yes. To run a big operation, you've got to pay attention to the proper laws of cash flow and all that, but there's no need to worry about controls if you're not making any money. And the way to make money is with good dealers and with good products. The rest is easy.

You can always get the Harvard Business School guy to study you to death, but finally you've got to make something work. What we've done here is start from ground zero to upgrade the quality of our products.

Thank God, the big thing I found here when I came in—I've been here almost three years now—is that Chrysler's engineering is equal to anything in this city, maybe in the world. If you don't believe it, just go over to our computer building and look at our new CAD/CAM (Computer Aided Design and Manufacturing) System. The room looks like a moon shot.

Somebody did that here. At least they kept Chrysler engineering fairly well intact and up technologically. Nearly 90 percent of our current products are now front-wheel drive, and when we add our all-new, front-wheel-drive minivans and wagons in Windsor, Ontario, we will be a totally front-wheel-drive company.

So we're in pretty good shape as far as facilities and products, but we've got to improve on the way we treat our customers. I wish all our 3,800 dealers were good, but if half are good, we've got a hell of a nucleus. The other 1,900 have got to mind their manners and get better.

And I say that because that's about all there is to running a company. You've got to have your priorities straight. Æ

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"Regan asked us what we could live with, with respect to rates. At the time, they were 20 percent, and we said, '15.'"

LYLES from page 14

of course, one of the best investments of the last 20 years," he says. "It's in a lull now like the auto business, but it will go up again. You just have to remember that in real estate, you don't overextend. You don't build until you see a 'for sale' sign. Vacant lots, unlike some other investments, are generally not self-destructing.

Lyles is a partner in another group, this one involved in a condominium development on the North Carolina coast ("I can sell you one before you leave"), and he says that, traditionally, even when housing markets have been slow, resort and second homes have been very much in demand.

The NADA executive somehow finds time to chair the First Federal Savings and Loan in High Point in addition to all his other involvements. He's had the position for 14 years (he's the largest stockholder) and he says he devotes a part of most business days to it.

He's also on the board of the Wachovia Bank, the largest bank in North Carolina, and he is involved in a UHF T.V. station in Greensboro which he helped establish.

The effectiveness and extent of the community involvement of George and Nancy Lyles are nothing less than formidable. His career includes a "who's who" or "what's what" of volunteer and civic organizations. He's been president of High Point's United Fund campaign, and president of its Chamber of Commerce and Rotary Club. He's been the chairman of the administrative board of his Methodist church, and he's been honored as his city's Man of the Year.

He credits his ability to handle all this diversification to an ability to strictly schedule his time, and to his good fortune in having excellent people around him. Because of that, he says, "I'm able, in spite of everything, to devote most of my energy to the auto business."

Even in just the auto business, there is plenty he has to devote that energy to. In addition to Lyles Chevrolet, he has a financial stake in a dealership in Tryon, NC, and he owns Transco, Inc., one of only two or three Rolls Royce franchises in the U.S. that is not a dual.

He says, by the way, his decision to take on R.R. was based, "on a hunch."

"There are ten people interested in a used Rolls for every individual bound and determined to buy a new one," Lyles says, "and so we travel all over the U.S. and Europe buying and selling. We buy several from estates, and we find a lot of our market consists of doctors and businessmen in their 30s and 40s."

The Lyles' tirelessness began showing up in state and local association initiatives in the early '50s, and he was elected president of the North Carolina dealers in 1969.

A good friend of his, former NADA president Tom Williams, encouraged him to participate in the national association, but he really did not become involved until '72, when he was named the Chevy National Dealer Council chairman, and, subsequently, a member of NADA's industry relations committee.

In '75, when NC director Walter Deal elected not to run, Lyles was named to succeed him, and his career as NADA treasurer, IR chairman, and member of the government relations, mobility and energy, DEAC, and finance committees really began.

What does Lyles expect of the future?

Well, with respect to GM, he feels president McDonald, being a former divisional officer, will be more responsive to dealers than someone else who has perhaps spent most of his career on some other corporate level.

"Jim McDonald has already told us that he and Bob Burger, the marketing manager, are going to be the ones working with us as far as NADA communications are concerned. Two or three months ago, the Chevy dealer council met with McDonald, and that's the *only* time the divisional council has ever met with a GM president.

"I was the only Chevy dealer invited to attend who was not a member of the council, and since I was there because I was representing NADA, I'd say it means NADA is in a very formidable position as far as GM is concerned.

"Since I've been on NADA's Board, I've noticed that the cooperation between GM and NADA has increased tremendously. You can feel it.

"And there have been things

that have caused the situation. We have DEAC, we have a really good pipeline as far as legislation and regulations are concerned relative to the industry, and we cooperate.

"Let's face it: what's truly good for the manufacturer is good for the retailer in most every case as far as legislation or rules or regulations are concerned. For the good of everybody, the manufacturers have *got* to work with the dealers, and we with them."

Lyles says that if the manufacturers are going to continue to show the losses they've shown in recent quarters, something dramatic is going to have to be done to increase the sale of the auto.

"Holding prices," he says, "is going to have to involve cooperation between labor and manufacturing. We've asked the manufacturers to *roll back* the prices, and they've called us irresponsible for asking for such a thing.

"But they in effect seem to do it extremely regularly with their rebate programs anyway, and that approach seems to be causing a problem.

"A survey expert from the University of Michigan talked to our NADA directors several weeks ago, and he says the public is now waiting, as a general rule, for one rebate or one concession after the other.

"GM, of course, brought on their 13.8 percent finance charge, and the other manufacturers followed suit with rebate programs, and business went up for awhile. Then, the programs went off and business stopped. Sales of new cars in October were off 30 percent from a year ago, the lowest since '58.

"Of course, GM then put on a 12.9 percent program. It makes me wonder if the public might be thinking, 'Well, if it's 12.9 today, maybe it'll be 11.9 next week.' It seems to me that, rather than going to 12.9, it would be better to expand the number of models covered by the 13.8. That kind of a move might indicate to customers that maybe they shouldn't plan to put off a purchase indefinitely, waiting for a better deal."

Lyles thinks manufacturers, for the most part, are listening to dealers a good deal more than they once did, but he notes dealers have been, through their councils, asking manufacturers for years for more input with respect to advertising.

The imports' cost of building a car, he says, is so significantly less, they can spend several more dollars per car on advertising, but he says he is not so sure the imports simply don't do a better job with every dollar they employ.

"The imports have made their advertising more memorable, and I suspect the ads for Toyota, Datsun, et al tend to help each other, under the heading, 'Japanese import.'

"On the other hand, the domestics seem so often to be out of kilter, advertising cars extensively that aren't even available. The ads lose their punch, and all those dollars are misspent."

Lyles says he'll be largely entrusting his 1,500-new car, 1,000-used car, 35-service bay, 350-lease-car operation to his son over the next 12 months (George "Skip" Lyles III has been the general manager for the last five years), and he says he's determined to drop in on as many of the state association conventions as he can early in his term.

He insists he's going to try to make sure NADA continues to help dealers as much as possible to get through the crunch, but he doesn't deny he's particularly concerned about the plight of the small dealer, as long as the high interest rates continue to proliferate.

With regard to dealers in general, he says, "The future of this business is with multiple lines. The happiest dealers today are the ones, of course, who were astute or lucky enough to have the lines that were in demand at a specific time.

"Jeep had its big year a couple of years back, and when gas prices went up, the shift went over to the high-mileage cars.

"Smart dealers are going to have to have multiple lines to protect themselves against what seems to be an increasing trend to volatility in the marketplace."

But then, smart dealers have already taken one pretty intelligent step: Electing George Lyles to lead them through '82-'83.

The Cabinet Elect

Innovative, persistent, aware, persuasive, experienced, knowledgeable. Those are good adjectives, and they're even better because they apply collectively to the group of men who've been elected as the officers and regional VPs of NADA this year.

Due to become the first vice president at the upcoming convention in February is W. C. "Bill" Turnbull, a man who has long had the respect of his peers for the way in which he's handled a range of tasks for the association.

He has done his usual solid job this year, of course—this time as the NADA treasurer—but he might be even better known for his work in the past as the Governmental Relations Committee chairman.

He's been a dealer since 1948. He's president of R. F. Steiner and Co., Inc., a GMC and International Harvester dealership in Huntington, WV, and is affiliated with Turnbull Buick-Subaru, Inc. of the same city. He's additionally the

William C. Turnbull

William J. Symes

H. E. Derrick, Jr.

Robert M. Burd

Frank C. Davis

James P. Jennings

D. W. Rose

dealer principal of C and O Motors, Inc., a Chevrolet-Oldsmobile dealership in Georgetown, SC.

Turnbull has held the offices of president and legislative committee chairman on the state association level, and since becoming an NADA director in 1976, he's served on the Industry Relations, Leasing, Finance, and Mobility and Energy committees.

He's also a past president of his local Chamber of Commerce.

The '82 NADA treasurer is due to be William J. Symes, a Cadillac dealer out of Pasadena, CA.

Like Turnbull, Symes has had a significant amount of experience grappling with industry issues. He was the Regional VP for region 4 from '79 through '81, and he's been a director for the Southern California district since 1976. His committee exposure includes the Membership, Finance and Public Relations committees, and he's additionally a member of the Charitable Foundation board of trustees.

On the state association level, he's served as treasurer, vice president, and president of the Motor Car Dealers of Southern California.

H. E. "Buddy" Derrick, Jr., the president of Lexington Motor Sales, Inc., a Pontiac-Cadillac-GMC-AMC-Jeep dealership in Lexington, VA, has been elected secretary of NADA this year.

Derrick was first elected an NADA director in 1977, and he's been a franchised new car dealer just since 1957. Nevertheless, his experience in industry politics is very impressive.

He has served as chairman and secretary of the Pontiac National Dealer Council in '76 and '70 respectively, and he's also chaired the Pontiac Washington Zone Council and the Pontiac Eastern Area Council.

He was a part of the Jeep National Dealer Council in '70-'71 and the General Motors President's Council in 1976, and he has served on the GMC Zone Dealer Council on two occasions.

Since he was elected as the NADA director from Virginia four years ago, Derrick has worked on the GR and Policy & Bylaws committees, and he's chaired IR. He's held several positions with the Virgina Automobile Dealers Association, including president.

The two new regional vice presidents this year come from regions 1 and 2.

The new veep for the 10-state, 12-district east coast area ranging from Maine to Delaware is Robert M. Burd, the head of the Washington, NJ, Volkswagen-Audi dealership, Warren Volkswagen, Inc.

He became a franchised dealer in 1960 after working in the business for 20 years, and he was first elected to the NADA Board in 1978.

To date, his experience includes work on NADA's Business Management, Service and Parts, and Convention and Exposition committees, and he's also a member of the Board of Governors of the Automobility Foundation.

In '78-'79, he was the IR line group chairman for his line, and he was the president of the New Jersey Auto Dealers Association in '70-'71.

Region 2's new chief will be Frank C. Davis, currently NADA Secretary.

Davis, who is the president of Frank Davis Buick, Inc., in Nashville, has been an NADA director since 1973 and a dealer since '48. He's a past president and regional vice president of the Tennessee Automotive Association, and he's worked on numerous zone and regional councils. NADA assignments have included work on the Finance and Convention and Exposition committees.

The two holdover regional vice presidents, elected just last year, are James P. Jennings, from region 3, and D. W. Rose, from region 4.

Jennings is the president of the Glenview, IL Chevrolet dealership bearing his name, and his current NADA work includes positions on the Nominating committee and the Retirement Trust board of trustees.

Rose heads the all-GM-line Hilo Motors in Hilo, HI, and he's devoted some of his time to the NADA Nominating, Parts and Service, and Convention committees, as well as the Public Relations committee, which he chaired from '77-'80.

Rose has been a dealer since 1963. Æ

AUCTION BLOCK

Business Opportunities

This may not be news by now, but Lou Fazio has returned to the Butler Auto Auction as general manager. Alex Pate will continue as administrative assistant. Taking over at the Baltimore-Washington Exchange is Bernie Sisco, who has been with the auction since it opened.

For those of you who may not know Bernie, here's some background on him. Bernie has been in the automobile business since 1954. (Put away your calculator . . . that comes to 27 years.) He has a predominantly retail background and has held a variety of positions with several local dealers, including used car manager, new car sales manager and general manager. He was with ADSCO two years prior to joining the BW.

Bernie is a "local." He lives in Kensington, MD, a suburb north of DC, is married and enjoys three grown children.

I do not know how many other auction general managers have come up from the retail side, but rather few I would guess. Certainly, it doesn't hurt to have an understanding of conditions on both sides of the block. And, 27 years in a market embracing the Baltimore-Washington metro area must be regarded as an asset.

Bernie told us he plans to aggressively seek out leasing, fleet, rental and finance accounts . . . ah, but who isn't? One point we thought interesting: Bernie estimates 35 to 40 percent of his customers are new car dealers—often the principals. In fact, he mentioned one dealer, big in the DC area and in Philly, who *personally* attends . . . good news.

This column is hard to write, especially in December. We called a few auctions around the country—Houston, Denver, Fremont (CA) and Toronto, just to name a few. The general reply: not much doing, although both Arnie Addison and the man we spoke with in Houston stated business was better than in the rest of the country.

Any time you have something of interest you want mentioned in this column, give us a call (703-821-7191) or send a letter. Do not put news items in with sales reports, because I do not open them . . . someone else does that. Our publication deadline is about the first of the month preceding the edition month. For the February edition, for example, copy must be ready by January 1 at the latest.

I spoke with Warren Young, chairman of the National Auto Auction Association's (NAAA) Political Action Committee, this morning. That is almost a local call, so we can talk as long as we want . . . even in these troubled times. I asked Warren how NAAA's Political Action Committee (PAC) is coming along. I had cautioned him that this is a very complex area. NADA sent him some information, and I told him where to get more. Based upon this morning's chat, I think Warren fully understands just how complex a PAC can be. Frankly, I do not believe that a PAC falls in easily with NAAA's structure. I am not even sure that NAAA, as an association, has that many well-defined objectives. Frankly, NAAA just doesn't have the numbers in my opinion. This is not to suggest that NAAA *shouldn't* engage in the political arena, but perhaps it would be more effective on a local or personal basis.

Warren and I talked about the state of the industry—where it is, how it got there and where it may be heading. You didn't know we were that smart, did you? Whoever said we were! You don't have to be smart to talk.

We talked about the dealer population, the car population, the scrappage rate and possible consumer decisions. The dealer population trend speaks for itself. The decline may slow or even cease, but it is difficult to see the dealer population growing or regaining lost ground. Speaking for myself, I see the same conditions applying to bonafide used car dealers.

The car population, we have mentioned before, is a by-product of effective market demand—not "pent-up demand." For several months, many planners in Detroit and elsewhere have been counting on this "pent-up" demand to turn the industry around. That is not unlike fighting the last generation's war in tomorrow's environment.

"Pent-up" demand is expressed in terms of what *(continued on page 56)*

Auction Block is prepared exclusively for **automotive executive** *by James "Harry" Lawrence, editor of the NADA Official Used Car Guide. All comments or questions pertaining to this column should be mailed to:* **Auction Block, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

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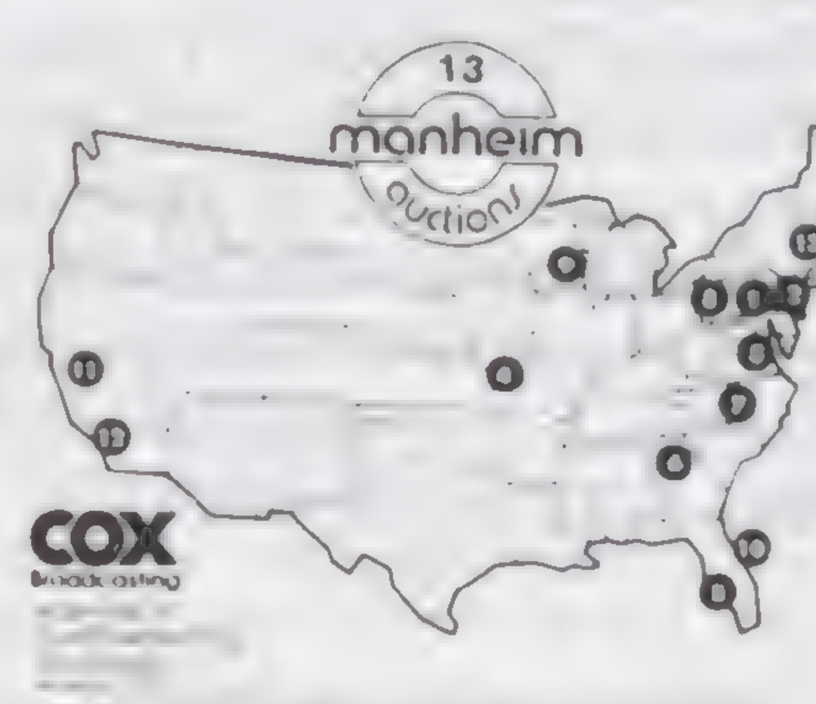

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TAX BRAKES

Irving Blackman

The New Depreciation Look

Under the new tax law, depreciation has a new look and a new name: The Accelerated Cost Recovery System.

You'll like ACRS. It's much simpler than the old system. Delightfully, the old concept of "useful life" has been scrapped. Technically, under ACRS, you don't *depreciate* property, you *recover* capital costs over "statutory recover periods."

The recovery period depends on the "class of property" involved. The law says there are four classes of recovery property: 3-year, 5-year, 10-year and 15-year. Prime examples of 3-year are automobiles, light trucks, and machinery and equipment used in connection with research and development. Few readers, if any, of this column would ever own 10-year property, which encompasses things such as railroad cars and public utility property. Real estate, whether residential or commercial, is 15-year property.

The definition of 5-year property is interesting. It includes, generally, *all* recovery property that is not included in the 3-, 10- or 15-year categories. It would include everything from a desk to a giant printing press.

A few new ground rules aid in the simplification of ACRS: Interestingly, the same recovery period applies to old and new property, and this is true for real estate as well as personal property. The component method of depreciation for real estate is dead.

Basically, under the new law, there are only two methods of cost recovery: "the statutory percentage" and the straight-line election. The statutory percentage automatically provides the benefits of accelerated depreciation via a series of IRS tables. There are three tables for each class of property, differing according to the year the property is placed in service: (a) 1981 through 1984; (b) 1985; and (c) after 1985. The most important thing to remember is, the new rules apply to *all* recovery property acquired in 1981.

The best way to understand the new rules is through an example. Assume Joe Taxpayer acquired a new piece of equipment for $10,000 on January 22, 1981. It is 5-year property. The statutory percentages (as shown on the 5-year property table for 1981 through 1984) are 15 percent for year one (1981, in this example), 22 percent for year two, and 21 percent for years three, four and five. The depreciation for 1981 (year 1) is simply $1,500 (15 percent of $10,000), and $1,500 would be the figure even if the equipment were acquired and put into service as late as December 31, 1981.

The law provides for a straight-line election, also, in the event the businessman prefers it. For example, in the case of 5-year property, you can elect a straight-line life of either 5, 12 or 25 years.

Though this article covers the most critical new rules in the depreciation area, there is a number of important nuances you should review with your professional tax adviser. As we mentioned in a previous issue, Blackman, Kallick Co., Ltd. is offering the special report, "The Reagan Tax Cut . . . How To Turn Your Closely-Held Business Into A Private Tax Shelter," to those people who feel they'd like to have more information about the tax package on hand. If interested, write the company % Tax Cut, 180 N. LaSalle St., Chicago, IL 60601.

★★★

Don't blow your interest deduction. There is an interest tax trap out there just waiting for victims.

Suppose you owed the *nice bank* $20,000 for 90 days. The $1,000 interest comes due, and the bank allows you to pay the interest *and* the old note by signing a new $21,000 90-day note. According to the IRS, the $1,000 is not deductible in this case. "Why?" you scream. Well, the IRS says the interest is not really being paid if you borrow the interest due from the original lender. Unfortunately, the Court has agreed. (See Battlestein v. IRS, 47 AFTR 2d 81-390.)

Is there a way to avoid this result? Yes. Borrow the $1,000 from a second lender to pay off *nice bank*. Æ

This column is prepared as an automotive exclusive for Æ by Irving Blackman, certified public accountant and attorney. All comments or questions pertaining to this column should be mailed to: **Blackman, Kallick & Co., 180 N. LaSalle St., Chicago, IL 60601.**

ENERGY from page 35

ever willing to accept the simple formula that would have ended the whole dilemma—paying a market price for our own oil.

It is commonly assumed that the events in Iran and the second "gas shortages" in 1979 finally curbed the nation's appetite for foreign oil. That is not quite correct. Redoubled international oil prices and the resulting rise in the cost of gasoline certainly reminded people of the realities of the world oil situation. But the effect would probably have been temporary once again, had not the second gas shortage finally convinced President Carter that domestic price controls were a self-defeating policy and should be abandoned. Carter bravely announced in late 1979 that he would phase out price controls by the fall of 1981.

Incredibly, even at this late date, congressmen howled, and consumer groups moaned, that the president was abandoning his apparent constitutional responsibility to provide Americans with cheap energy. Yet the payoff came almost immediately. Within one year, U.S. oil imports fell by 25 percent, back to their 1975 level.

Oil drilling increased as never before (although oil is still getting harder to find), and consumers finally began demonstrating hitherto unsuspected capabilities for conserving energy. President Reagan's January decision, which accelerated Carter's schedule by nine months, only completed the process. Drilling for new oil has increased by 50 percent in the last 6 months. Consumption has dropped another 20 percent. Domestic oil production is holding steady, and consumers—finally deprived of the "protection" of Congress—seem permanently set on a conservation course.

The unanticipated—though predictable—result of this new realism has been that energy prices are now falling on the world market. Throughout the 1970s, our energy policy was to prop up world oil prices by creating a domestic shortage and then making up for it by buying in the world

market. Without our support, OPEC would have been defunct by 1977. Now it is falling apart anyway. Americans are buying 2.2 million barrels a day less than we were before President Carter launched the repeal of the price controls in 1979. This is the exact amount of the current world glut. Left to the mercies of supply and demand, OPEC is finding it can do nothing more than set its prices where the market tells it to.

Are we really out of the woods? Perhaps not entirely. We still import just over 30 percent of our oil, which is about where we were in 1973 just before the embargo. What we could do now is to put a modest tax on imported oil—perhaps two dollars a barrel—in order to pay the costs of building a strategic petroleum reserve; this would be a fair measure of the risks we incur by importing some of our oil. Both Europe and Japan have long used high government taxes to discourage consumption, which is why they were much less affected by the Iranian events than we were, even though they import nearly all their oil.

Yet all these wise and conscientious measures would still have to run the gauntlet of shortsighted "consumer protectors." There are still enough Toby Moffetts and Edward Kennedys in Washington to put on a magic show of preaching conservation with one hand while subsidizing consumption with the other.

Where do the oil companies fit into all this? Those Enemies of the People, of course, were the favorite whipping boys of the mid-1970s. By 1975, it probably didn't seem a bad guess to predict that they would have been nationalized within a few years. It is easy enough now to see what happened to the oil companies in the 1970s, and why we hated them so much. The problem was that the oil companies were getting weaker. During the 1950s and '60s, they had bullied their way through the producing countries, robbing them for the benefit of Europeans and Americans and bringing home the goods at ridiculously low prices. When things got difficult, there were always the Marines and the CIA to hold up our interests.

But in the 1970s all that changed. The oil companies found themselves up against a more firmly knit cartel with better control over the resources than they had. What could we do but hate them? They had failed us miserably. As Eric Hoffer said of revolutions, it is usually when the public feels the government weakening that it expresses all its hidden resentments.

The oil companies have now lost their pre-eminence in world trade. In 1970, they handled over 90 percent of the transactions between the producing and consuming countries. Now they handle only about 40 percent. More and more, the consuming countries are dealing directly with the producers. In addition, the OPEC nations are building their own refining operations, buying tankers, and moving "downstream" in the oil business.

The future for the oil companies, of course, is not bleak. The value of their remaining oil resources has increased enormously. Their profits have risen by 20 percent per year since 1973. They are still the world's specialists in exploration and drilling technology. In addition, they are diversifying into other fields and energy technologies. They will probably do as they have always done—quite well.

Is the energy crisis over, then? Not quite. Unfortunately, we still have a 40-year-old hangover to deal with—the chaotic state of resources, created by government intervention in the natural-gas industry.

The havoc is almost too complicated to delineate. (For an excellent account, read Tom Bethell's article "The Gas Price Fixers," *Harper's*, June 1979.) Price controls were originally imposed in 1938 because of a supposed "monopoly." Actually, there was no monopoly at all. Consumers had a choice of several other fuels, and gas drilling is one of the most decentralized industries in our country. One out of every two hundred Americans owns interest in a natural-gas well.

In 1954, one producer tried to raise the price of gas from three to four cents a thousand cubic feet. This ridiculously low price had originally been granted only as an open invitation for the pipeline companies to build their connections into the oil fields. Before that, the producers had flared off their gas as a waste product of oil drilling. But a Wisconsin state consumer authority, reacting to this insignificant price increase, forced the Federal Power Commission to extend its control back to the wellhead price as well. The decision was upheld in the courts, and Congress has never mustered the will to change it.

The results have been utterly perverse. The natural-gas industry became a kind of national utilty company. No one was ever encouraged to go out and find more. The only gas we have used is the "waste product" now associated with oil deposits. Yet all indications now are that there are staggering amounts of natural gas —perhaps as much as 200 years' supply at current prices—in different kinds of formations in the earth.

The situation finally reached a crisis with the "natural-gas shortages" of the winter of 1977. These "shortages," again, were nothing but the result of price controls. The law had never extended federal control over pricing within the producing states themselves. By 1977, gas prices in the intrastate market were four times the price in the interstate market. Most producing states, like Texas, Louisiana, and Oklahoma, which collect large royalties, simply refused to send any more gas north, where consumers were still paying 1960s prices; hence the shortages.

The hopelessness of government efforts to anticipate market prices can be seen in the 1978 Natural Gas Policy Act, which at the time was perceived as a victory over the consumer advocates. Toby Moffett and the gas-guzzling suburbanites once again tried to ensure their constituents cheap energy at other people's expense. They failed, in that the Carter administration finally decided on a phased program

ending in complete decontrol in 1985. It is said that when the vote against continuing price controls was finally taken, Representative Moffet left the House, fell against a tree, and wept.

He could have saved his tears. Congress, in its wisdom, decided to anticipate the future by allowing natural-gas prices to rise to the 1978 level of oil prices—equivalent to $15 a barrel—by 1985. Then they could go where they would. Yet in less than a year that price was already hopelessly out of date. Taking inflation into account, natural-gas consumers are once again paying 1960s' prices for energy. (Because of the resulting shortages, industry and utilities are rapidly being squeezed out of the market, and consumption of natural gas is now concentrated almost entirely in home heating.)

The results have been chaos. Congress allowed that all gas found below 15,000 feet could be free from price controls. Previously, most gas had been found at 5,000 feet. This spurred new exploration, which started turning up gas reserves no one had ever dreamed possible. It is now clear that there are probably huge reserves between 5,000 and 15,000 feet as well.

But the owners of gas deposits below 15,000 feet have now become opponents of decontrol. They fear that they will be undersold by all the gas that obviously exists between 5,000 and 15,000 feet. This promise doesn't promise a very orderly development of resources. In a final irony, the pipeline owners themselves have become a principal opponent of deregulation. They are paid according to the amount of gas that flows through their pipelines. They fear, quite reasonably, that if prices are decontrolled, people will start conserving gas. That will cut down on their pipeline transmission and lose them money. Thus, as always, the regulated have ended up falling in love with their regulations.

There are already fears that when 1985 arrives Congress will find decontrolling the price of natural gas intolerable. Yet there is hardly any choice. In fact, removing price controls right now—as the Reagan administration is beginning to propose—would be even easier. There is no time like the present for getting rid of price controls. The medicine would be only slightly harder to swallow than our current decontrol of oil prices, which people have hardly noticed at all.

The only alternative is that natural gas will be a resource that we simply don't use. Once again one may ask: if we are creating artificial shortages by controlling the price of natural gas, where are we making them up? And once again, the answer is the same. *We are importing more oil.* It is estimated that between one and two million barrels per day of our current oil imports are the result of our failure to use our own natural gas. The subsidy of natural-gas consumers is also delaying the introduction of rooftop solar energy. Decontrol would unquestionably mean higher natural-gas prices, but this would quickly be neutralized by a further drop in the price of oil and the introduction of new technologies. People are never going to conserve, or use solar energy in home heating, as long as they are paying 15-year-old prices for natural gas.

But without the foreign oil needed to make up for the natural-gas shortage, OPEC would be about as important to the American economy as a Turkish bazaar.

The Energy Crisis, then, is half won. We have ended OPEC's dominance of the market within a few short months by swallowing what turned out to be a relatively mild pill and accepting a market price for our own oil. All we have to do now is decontrol our natural-gas prices, and we will be home free. There will be another mild period of adjustment, and soon we will be on a firm, stable, and innovative energy course.

Are we up to it? Can Americans tackle the energy problems of the 1980s?

Stay tuned. Æ

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ECONOMIC  OUTLOOK

UAW Contract Negotiations

Labor costs and job security are going to be the primary issues in the United Auto Workers (UAW) contract talks that begin in July. These are tough, complicated issues. Negotiations on the secondary issues, such as contract length, seats on the board of directors and profit sharing, will also be arduous. For this reason, both sides began making their cases about nine months before the formal talks are slated to begin.

Despite this early start, however, union officials believe that it could take as long as six months to reach an initial agreement. And because of varying financial conditions among the Big Three, separate pacts may have to be negotiated with each company. If so, settling each of the two remaining contracts could also take a considerable amount of time.

While dealers undoubtedly perceive the potential of a strike to be the most important element of these negotiations, the issues themselves are crucial, because they reflect significant changes in the whole collective bargaining process. For almost 50 years, the UAW has been one of the nation's strongest and most ambitious unions. If the UAW ends up granting concessions to the automakers, as seems likely, the tendency toward "give-backs," which started in the airline industry, will be reinforced. As a result, unions in other industries may find themselves facing similar demands.

Labor Costs

General Motors and Ford had total losses of $2.31 billion in 1980, and reported losses of $478 million through the first nine months of 1981. Both companies ascribe much of these losses to excessive labor costs. According to GM Chairman Roger Smith, labor costs at GM are about 80 percent higher than in the rest of American manufacturing and about 80 percent higher than those of the Japanese auto manufacturers. According to GM and Ford, this gives the Japanese an $8-per-hour cost advantage. Furthermore, UAW concessions have given Chrysler a cost advantage of approximately 20 percent vis-a-vis Ford and GM.

In order to reduce this disadvantage, the two companies will undoubtedly try to revise the industry's 30-year-old wage formula. In addition to attacking straight time rates, the companies will attempt to change cost of living (COLA) provisions, workers' benefit packages and many work rules.

Ford and GM COLA payments amounted to about $1,400 per worker in 1980. GM says that use of sickness and accident benefits has risen by 50 percent over the past 10 years, while Chrysler says that it is currently paying health care benefits equivalent to $300 per car. Furthermore, many US auto workers are currently getting 46 minutes of relief time each shift, compared to 10 minutes for Japanese auto workers. Another point of contention is the fact that US auto workers get nine paid personal holidays per year in addition to their vacation and customary holidays. As a means of inducing wage, benefit and work rule concessions, both Ford and GM are threatening to increase off-shore sourcing if labor costs are not reduced.

Job Security

The move towards off-shore sourcing is a major factor in the UAW's demand for job security. At Ford, off-shore sourcing decisions affecting 17,000 (14 percent of Ford's work force) will be made even before negotiations begin. Another major reason behind the push for job security is new technology. While the UAW has always supported new technology in the past, this position is under review because of the concern about job security that has been brought on by 22 consecutive months with more than 150,000 union members laid off.

In order to preserve union jobs, the UAW is calling for the passage of a "local content law," which would require up to 90 percent of a vehicle's components to be manufactured domestically. In addition, the union has indicated its willingness to change the lines of demarcation that have prevented workers in certain job classifications from performing other tasks. Many of the other UAW proposals

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This column is prepared exclusively for **automotive executive** *by the Economic Analysis Department of the National Automobile Dealers Association. All comments or questions pertaining to this column should be mailed to:* **Economic Outlook, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

USED CARS from page 36

colns and Cadillacs just a week before the overthrow of the shah of Iran.

Actually, it wasn't the success of my wholesaler friends that sent me off on this tangent; it was the doubts of a new car dealer with regard to a late-model trade he had taken in. The car was not one he preferred to handle, and he wasn't sure how he had made out. I thought he was in at a decent number, but it was his money and not mine.

He wholesaled the car and let it go for what he had in it. I don't know what I would have done with the car, but I have a feeling someone smiled a bit as he drove away.

Well, my point is that an energetic wholesaler can work one strip and make a living. My friend was not unique in his concern. He had made the money up front on the new car . . . *if* he could get back his investment in the trade. That's a common experience, isn't it? And, I guess that tells me why the wholesaler exists. He is to the used car business what a specialist is to the stock market . . . sort of. Æ

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"Pent-up" demand is expressed in terms of what people have done in the past. Too often we overlook what they may do in the future. Sometimes I think our industry planners simply ignore such things as urban metro systems, even though more and more are coming on line. There are people movers . . . as are cars.

Warren asked me to publish these thoughts. His reasoning is simple: It costs nothing to read or to listen. I wish I could get my 15-year-old to take that approach, but, like most boys his age, he *already* knows everything.

I do not think I am alone when I say that more cars will enter the marketplace via the daily rentals, the lease deals and the fleets. There are various economic reasons for this. A typical consumer enjoys no tax breaks, other than sales tax, on the purchase of a car. Corporations, on the other hand, may enjoy certain tax advantages and some, or all of these, can be passed on to the next buyer. This may be a dumb thing for me to say, but some buyers seem to enjoy purchasing clout while others do not.

"More cars will enter the market via the fleets."

These cars have to get into the system in an orderly manner, and it seems to me that a natural redistribution point is the wholesale auction. This trend is already taking place, and I think it will grow . . . how quickly depends upon the auctions. Once in a long time the mountain comes to Muhammad, but don't count on it.

Most of us watch opportunity pass by, even though we may recognize it. I look at my "stock portfolio,"and think how well I would have done had I put the same money into Marriott that I put into "solid" companies like Greyhound, Allied Corp. and Beatrice Foods . . . just to name a few! Going back to the early '60s, and counting splits and stock dividends, it pains me to even think about it! Æ

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(a seat on the Board of Directors, an employee stock-ownership plan and some influence over plant closings and supervisory ratios) are designed to give the union a bigger role in management, because the union believes that is another way to preserve jobs.

Will There Be A Strike?

While provisions granting the union a greater role in management generally have been resisted by the auto companies, the UAW did obtain such provisions from Chrysler, in return for $1.07 billion in wage and benefit cuts. Alfred Warren, GM's vice-president of labor relations, has acknowledged that GM will have to accept some things it doesn't like in exchange for union concessions. In fact, both GM and Ford already have indicated a willingness to offer profit-sharing, something the union has been demanding since 1958.

Nevertheless, the auto companies apparently will be bargaining from a stronger position than will the UAW. While Ford has announced that it will close its aluminum casting plant in Sheffield, AL, because workers declined to buy the plant or to make wage concessions, workers at Ford's transmission plant in Livonia, MI, recently voted to make contract concessions that may forestall the closing of that plant. And a group of former GM employees who did buy their plant also voted to cut their wages by 25 percent. Clearly, some auto workers are willing to make concessions in order to keep their jobs, while others are not. This will make bargaining with respect to local issues particularly difficult.

Concessions will have to be made on both sides. Roger Smith has stated flatly that there will not be a strike in 1982. Union officials have been publicly recalling the 1958 negotiations when auto workers worked without a contract for several months because a recession had put them in a poor position to strike. While it does seem that the workers are again in such a position, the bargaining issues are so complex that it may not be possible to avert a strike, despite the early start of negotiations. Æ

Selling Yourself

Joe Girard

Winning Over The Walkout

I was talking to a friend in a non-selling field not so long ago and I used the word *"be-back."* The puzzled look on his face as I was explaining the term made me laugh, but it's really no laughing matter. To most salespeople, especially automobile salespeople, "be-back" is a gloomy word. And with good reason.

It means a *walkout*—a deal that got lost before it got off the ground. It's the "I'm-just-looking guy," or the "give-me-your-price-and-I'll-be-back" prospect. In fact, he's a *suspect*—not a prospect. He's a comparison shopper. I couldn't begin to count the number of be-backs I've encountered, but the experience has taught me this: You *can* get the be-back back. You *can* get the walkout to return. You *can* sell him. Maybe not that same day or week, but sooner, or later.

Like everything else, it takes work. In today's economy, it takes even *extra* effort. So, when a prospective customer walks, how do you bring him back? I had three rules which served me in good stead throughout my selling years.

1. Do everything to prevent the walkout *before* it happens.
2. Make each demonstration the *best* you've ever made.
3. Continue selling *after* the walkout.

Let's consider each—how it's worked for me, and how each can work for *you*.

First, do everything to prevent the walkout *before* it happens. When a person is concerned about his health, he takes preventive steps to keep from getting sick. You can do the same if the sale you're after starts turning into a sick deal. You can recognize the signs: the prospect hedges, and uses excuses such as "Well, I've got to talk it over with my wife." Or, he tells you or you begin to sense that he's got other prices elsewhere.

If he starts to hedge on a particular feature, either switch immediately to *another* one or continue to add up the benefits of the feature he's hedging on. If he says he wants to talk it over with his wife (or brother or uncle or whomever), say, "Fine. Let's call her up right now and have her come over to the dealership." Or, offer to pick her up yourself.

What I'm really saying is, shoot *down* the excuses; call the other player's bluff. If you learn he's been comparison shopping and has prices, show him how you can beat the other guy's deal. Just make sure the price he has includes the same base deal and the same options or extras.

During the selling process, I used the selling philosophy I've always lived by: *"I don't sell cars, I sell me."* When I sold *me* first, I found it usually prevented a walkout situation. Face it: it's harder for a person to walk out on a salesperson he likes—one who is confident, self-assured, knowledgeable and honest—than it is to walk out on a car.

Selling *yourself* also includes selling your dealership. After all, to the prospect, *you* are the dealership. He may not be completely sold on the vehicle, and he may toss somebody else's price at you. But, five'll get you ten he's only talking about the car. *You* must sell him on the concern your dealership will have for him after the sale. Sell your service department, your parts department, your reputation for quality.

When it comes to the demonstration, show your vehicle—both in the showroom and during the ride—as the jewel it is. Imagine it's on black velvet on a counter in Tiffany's. Of course, being able to really show your product off means knowing your product *thoroughly*, and your competition's product. There's no excuse not to. Your dealership has all the facts on its vehicles and it has competitive comparisons, too. Study them. Nothing shakes a customer's confidence in you more than if he asks a specific question and you say, "Well, I'm not sure . . . Let me see if I can find that out for you."

Remember: the more complete your demonstration is, the better your ability to sell every aspect, the less your chance of a walkout.

But, what if the prospect still walks? That brings me to my third and perhaps most important point: *Continue* selling.

Here's a story from my experience that illustrates what I mean. My prospect, a contractor, was a walkout. I figured I had lost the sale. It hurt. Despite a good presentation, a demo ride, and an

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This column is prepared exclusively for **automotive executive** *by Joe Girard, named the World's Greatest Salesman 12 times by the Guinness Book of World Records. All questions or comments pertaining to this column should be mailed to:* **Selling Yourself, automotive executive magazine, 8400 Westpark Dr., McLean, VA 22102.**

CALENDAR
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January

16 to 24. Detroit Auto Show, Cobo Hall, Detroit, MI
27 to 31. Portland International Auto Show, Memorial Coliseum Complex, Portland, OR

February

5 to 7. South Bend-Mishawaka New Car Dealers Association Convention, Century Center, South Bend, IN
7 to 12. Recreation Vehicle Industry Association Annual Meeting, Hilton Riviera Hotel, Palm Springs, CA
10 to 14. Milwaukee International Auto Show, MECCA Convention Hall, Milwaukee, WI
11 to 15. International Auto Show, Salt Palace, Salt Lake City, UT
16 to 18. Energy Technology Conference and Exposition, Sheraton Washington Hotel, Washington, DC
20 to 23. National Automobile Dealers Association Annual Convention, Georgia World Congress Center, Atlanta, GA
21 to 24. Truck Renting and Leasing Association Convention, Canyon Hotel, Palm Springs, CA
28 to March 2. Automotive Service Industry Association National Convention, MGM Grand Hotel, Las Vegas, NV

March

3 to 5. Pacific Automotive Show, Las Vegas Convention Center, Las Vegas, NV
10 to 13. National Truck Equipment Association Annual Convention, Louisiana Superdome, New Orleans, LA
24 to 26. International Trucking Show (West), George R. Moscone Convention Center, San Francisco, CA

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order blank ready to be signed, I had somehow blown it. That night, I tried to figure what went wrong. Why did I end up with a be-back who I knew *wouldn't*? As the evening wore on, I could stand it no longer. I phoned the guy. I said, "Look, I tried to sell you a car today, and in fact, I thought I *had*. Yet, you walked out. What happened?

"Are you kidding?" he said. "It's 11 p.m.—and you're bothering me."

"I know it," I said, "and I apologize. But, I'm bothered, too. I want to be a better salesman than I was this afternoon. Would you tell me what I did wrong?"

"Are you serious?"
"You bet."

"All right. Are you listening?"
I was, and I got an earful I hadn't bargained for. It had nothing to do with the car at all, or its price, or anybody else's price. In fact, he said he had just about made up his mind to buy from me when he started to tell me about his son—how proud he was of the boy's achievements, how he couldn't wait until his son was a full-fledged doctor.

Obviously, while he had been talking about his son, I had been busy thinking about the deal. I couldn't remember his bringing the subject up. He told me I hadn't seemed to care; I had shown no interest. So, people being people, he lost interest in *me*. He had, you see, a greater need than the transportation I was selling. He needed to be complimented on his pride and joy—his son. That's why he didn't buy *me*.

I heard him out. I apologized again, and I thanked him for helping me. He had taught me a lot. "Perhaps the next time," I said, "you'll give me another chance to sell you a car."

That "next time" came the next day. He came in again. He bought the car. My continuing to sell *after* the walkout saved the sale. I never forgot that.

The reasons for your walkouts may be different, but regardless, a continual follow-up afterwards may bring the be-back back.

Those rules have worked well for me. Try them, and I guarantee that more of your walkouts will walk back in. Æ

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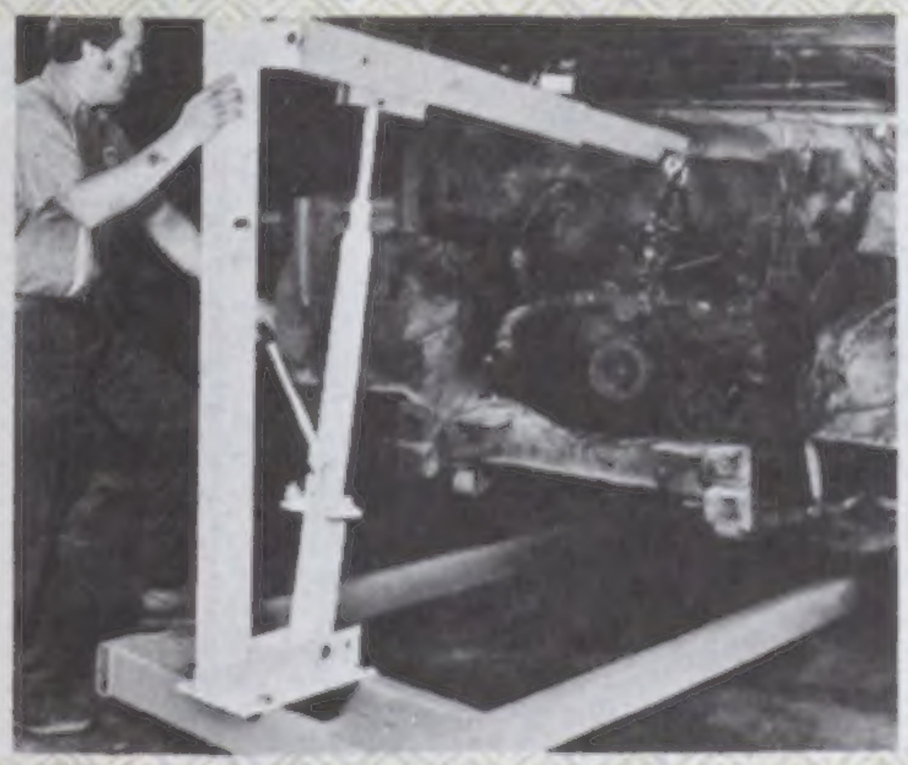
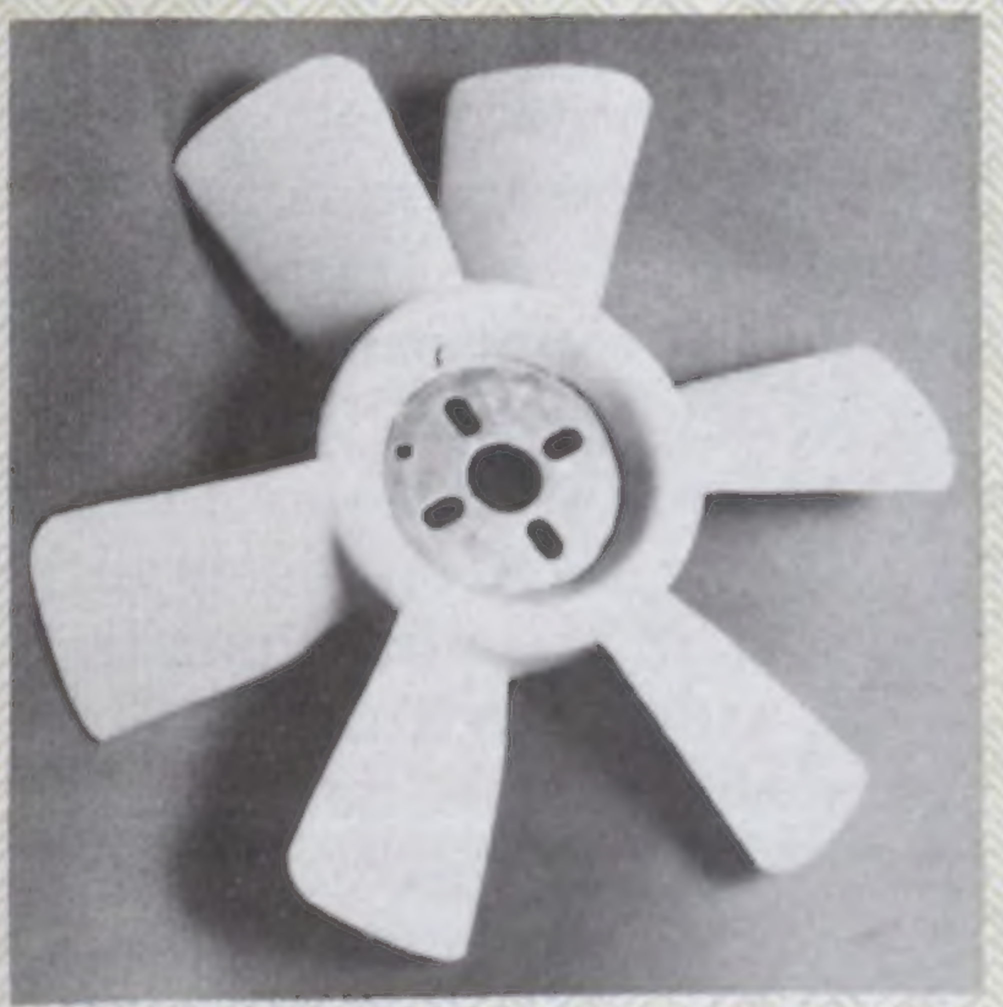
Showcase

WHAT'S NEW ON THE MARKET

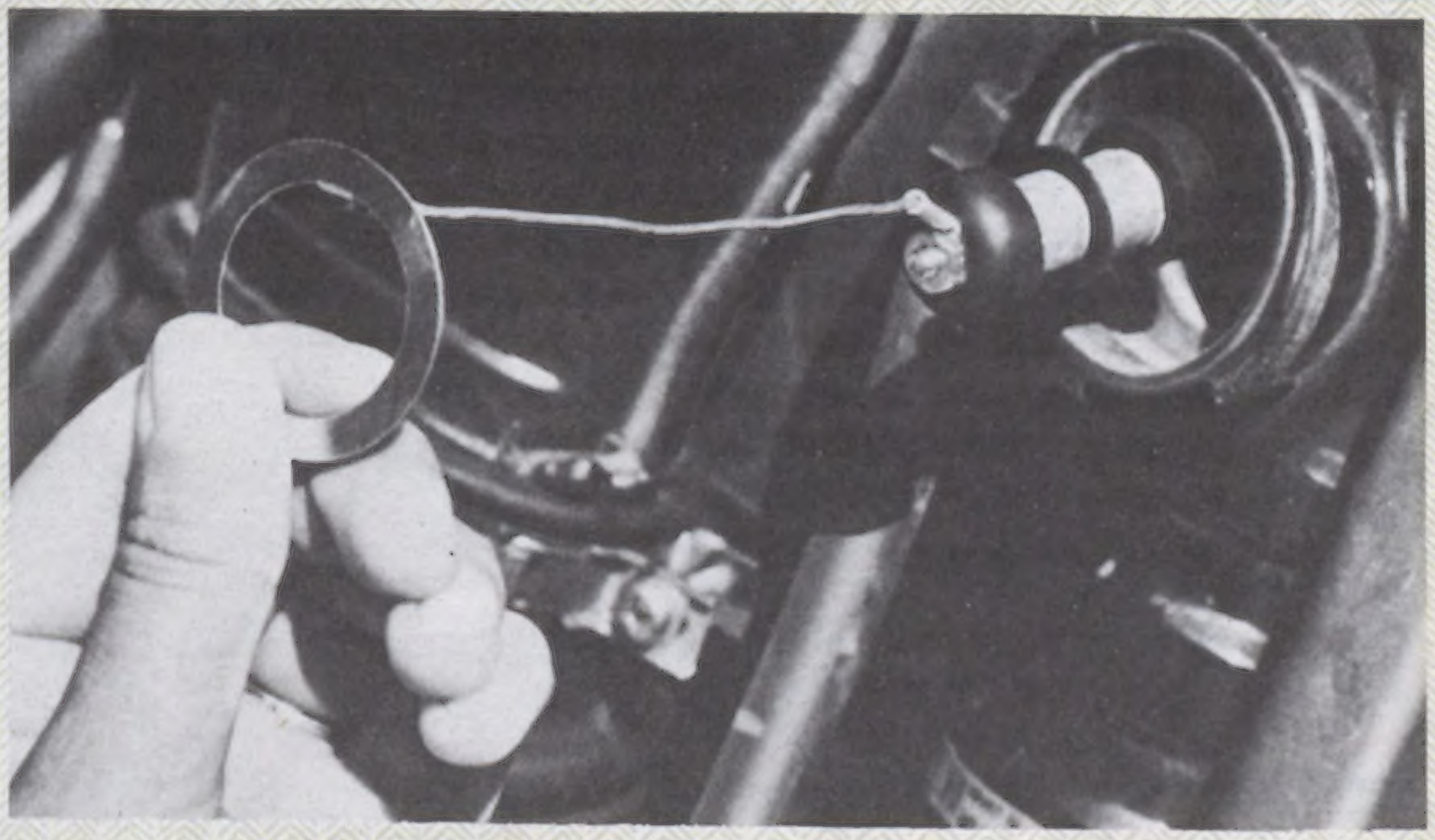


A new **floor crane** with 2,200 pounds of lifting capacity when its boom is retracted and 1,300 pounds extended has been introduced by Owatonna Tool Co. A hydraulic hand pump powers the unit, but the boom can also be manually raised to working position, where it automatically locks in place. Manufacturer: OTC Tools & Equipment Division, Owatonna Tool Co., 125 Eisenhower Dr., Owatonna, MN 55060.

An all-purpose **pressure washer** is being offered by Homestead Industries Inc. The system is designed for cleaning cars, boats, aluminum siding, furnace and air-conditioning filters. It can also be used to degrease parts and engines. Operating at 500 psi, the machine can be attached to a hot (up to 140-degree-F) or cold water outlet. An automatic suction system mixes soap or other solutions with spray. High-pressure spray can be turned on and off at the cleaning gun to conserve water, soap and electricity. Manufacturer: Homestead Industries Inc., P.O. Box 348, Coraopolis, PA 15108.



Nylon fans, designed to replace the plastic fans common on many U.S. and import cars and mini-trucks, are available from Auto Trend Products, Inc. The lightweight replacement fans last longer than original equipment, improve air flow rate and reduce the wear on fan-drive mechanisms, according to the manufacturer. Manufacturer: Auto Trend Products, Inc., 1911 E. 51st St., Los Angeles, CA 90058.

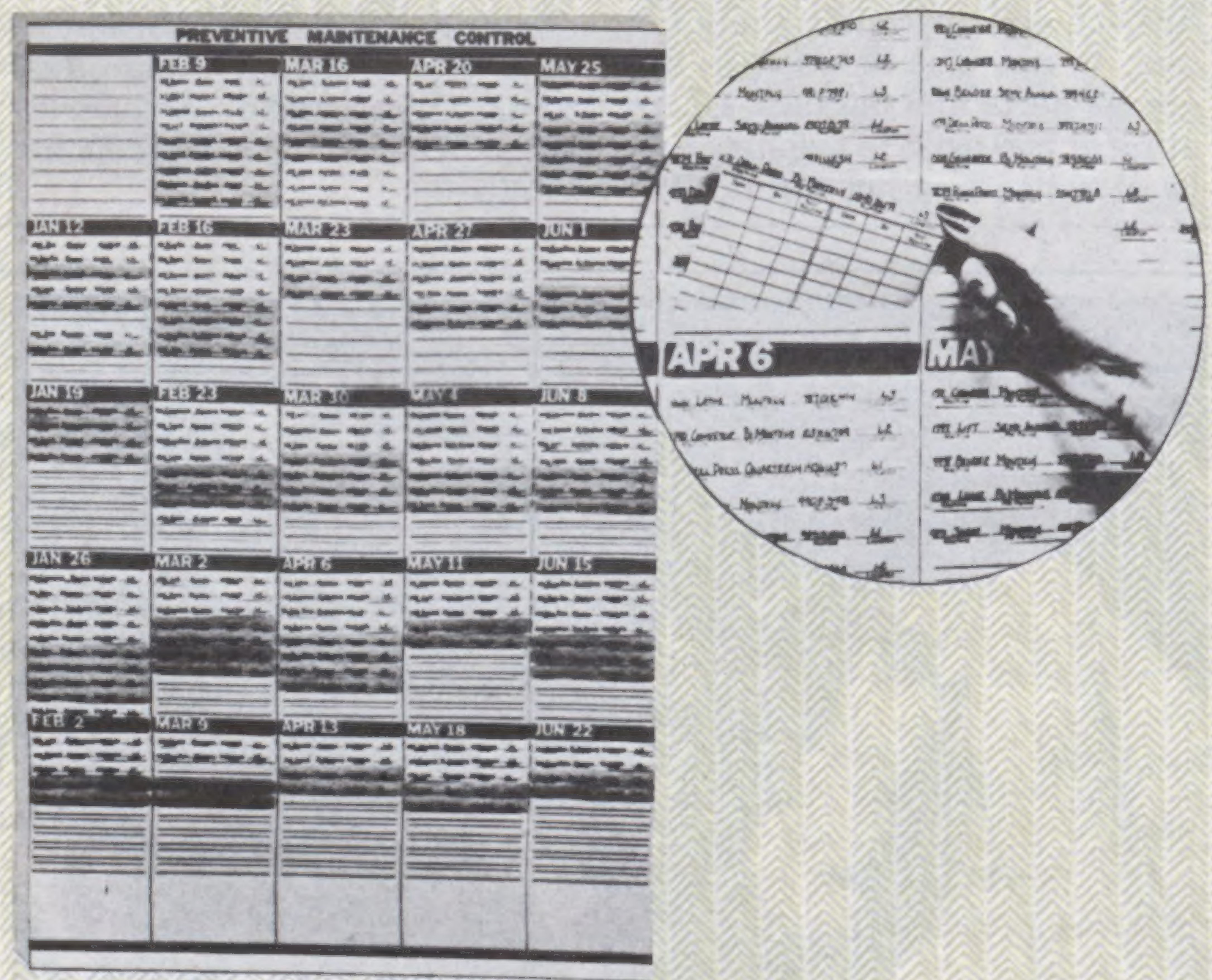


The new **Radiator Saver** from Inter-Zinc puts an end to radiator corrosion in autos, trucks, tractors, heavy equipment and motor homes, according to the manufacturer. The result: no more hot, scaley, corroding or boiling radiators. The Radiator Saver erodes and actually sacrifices itself to keep cooling systems from corroding. Its average life expectancy is about two years. The device requires no tools to install. Manufacturer: Radiator Saver, 28060 Del Rio Rd., Temecula, CA 92390.

Information and photographs of products listed in **Showcase** *have been provided via manufacturer's press releases. A product's appearance in this column in no way implies endorsement by either NADA, the NADA Services Corp., or* **automotive executive magazine.**

New **film graphics** developed to provide automotive designers with the qualities of airbrush painting techniques have been announced by 3M's Decorative Products Division. The film can be used to accentuate feature lines and to create the illusion of a third dimension on flat surfaces. Called "Tone Reproduction" graphics, the new graphics are manufactured on 3M's Scotchcal brand film. "Tone Reproduction" graphics are reproduced in shades of black to grey on transparent film and are available in dark-to-light linear designs up to six inches wide. The new graphics pick up the substrate color of the automobile, shading areas horizontally from a dark to light green. Manufacturer: 3M, Decorative Products Division, P.O. Box 33600, St. Paul, MN 55133.

The Uniroyal Tire Co. has introduced an all-season, all-terrain **radial tire** for light trucks. Made of polyester steel, the 8.5 R14 six-ply tire, with raised letters outlined in white, is designed for use with two- and four-wheel drive. The tire fits most current-model domestic- and foreign-built mini-trucks. Manufacturer: Uniroyal Inc., 1230 Avenue of the Americas, New York, NY 10020.



Methods Research Corp.'s **wall charts** use T-shaped cards to organize planning and production information. The T-cards fit into slots on the panel surface, allowing only the top portion of the card, with key information, to show. The remainder of the card is hidden below the slot. The T-card planning system can be designed to meet the particular needs of individual operations. One of the most common uses for the T-Card planning system is inventory control. A dozen printed cards are available for scheduling receiving and re-stocking, keeping track of warranty and guarantee availability, controlling stock usage and planning vendor availability. Manufacturer: Methods Research Corp., Asbury Ave., Farmingdale, NJ 07727.

Besides being useful for repairing rusted body panels, Polycel 500 **urethane foam** is particularly useful for eliminating sheet metal vibrations, rattles and other noises. When dispensed from its 14-ounce aerosol can, the material reacts with moisture in the air, expanding as it cures. Within several hours, the product has cured to form a rigid closed-cell foam which is then trimmed, sanded, and finished. Manufacturer: W. R. Grace & Co., 62 Whittemore Ave., Cambridge, MA 02140.